The MAGAZINE of WALL STREET

SOCIOLOGY

and BUSINESS ANALYST

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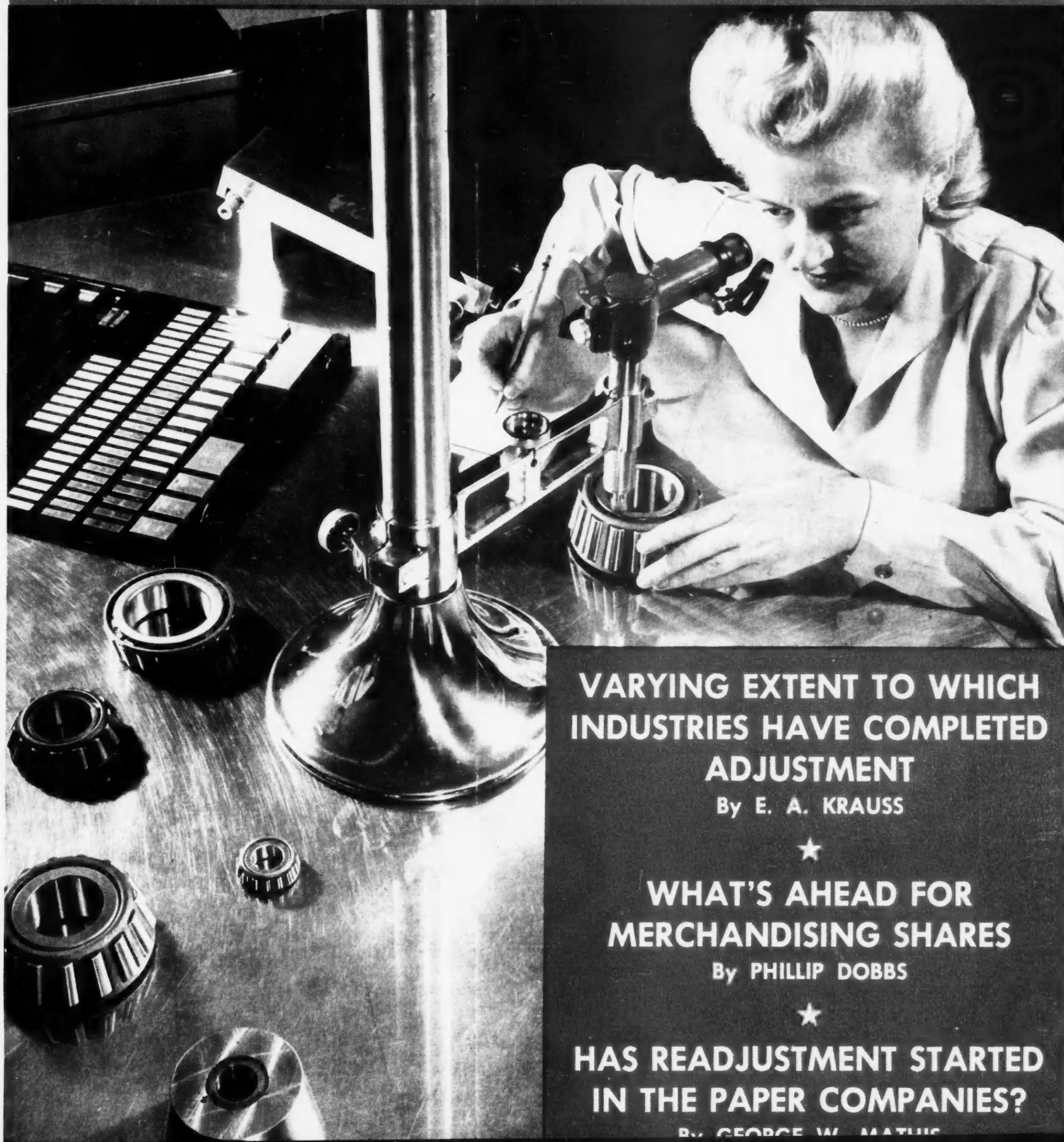


VARYING EXTENT TO WHICH INDUSTRIES HAVE COMPLETED ADJUSTMENT

By E. A. KRAUSS

★

WHAT'S AHEAD FOR MERCHANDISING SHARES

By PHILLIP DOBBS

★

HAS READJUSTMENT STARTED IN THE PAPER COMPANIES?

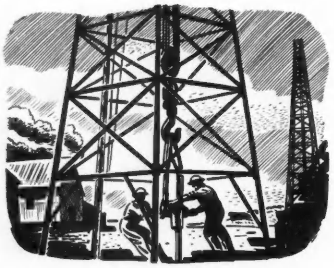
By GEORGE W. MATHIS

Standard Oil Company (New Jersey) Reports for 1948...

A year of Progress and Results for an Oil-using World!..

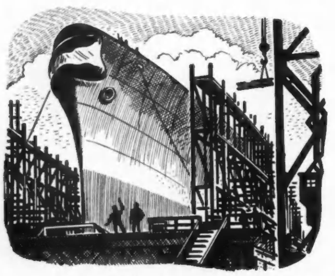
OIL SHORTAGE FEARS of a year ago have vanished. All around the world, oil resources are expanding. In doing their part to meet the rising needs for oil, this Company and its affiliates last year made the greatest efforts in their history. Here are some facts from this Company's Annual Report to its more than 200,000 stockholders . . .

1 TOTAL PRODUCTION AGAIN INCREASED. After setting new records in both 1946 and 1947, this Company and affiliates in 1948 increased crude oil production by 8% over the year before. Output of crude oil by our domestic affiliates represented 9% of the total crude produced in the U.S. Output of affiliates, world-wide, represented 14% of world production.



More wells drilled than ever before. Proved reserves increased

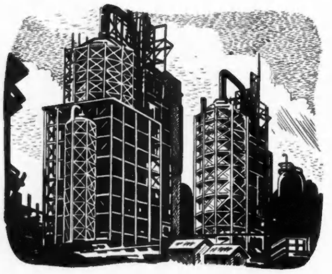
2 SEARCH FOR NEW OIL SOURCES SET RECORDS. More wells were drilled than ever before. Costs for this were a record $374,000,000 in 1948. Proved reserves in the earth at year's end were at a new high.



14 new Supertankers ordered, each nearly twice the size of wartime tankers

3 EVEN GREATER COSTS FOR EXPANSION AND REPLACEMENT were again required to meet rising needs for oil. Jersey Standard and affiliates spent a record $529,415,000 in 1948, even more than 1947's investment of 426 millions. For these needs and payment of dividends, money again was drawn from earnings, from borrowing, from sale of assets, and from further call on savings of past years.

4 NEW FACILITIES RESULTED ALL OVER THE OIL-PRODUCING WORLD. In Venezuela, the world's largest pipeline was completed. Fourteen new supertankers were ordered, each nearly twice the capacity of wartime tankers. At Montreal and Edmonton in Canada; at Billings, Montana; Linden, New Jersey; and Baton Rouge, Louisiana, new refining facilities for more and better oil products went into service. At Amuay, Venezuela, a new 60,000 barrels per day refinery neared completion.

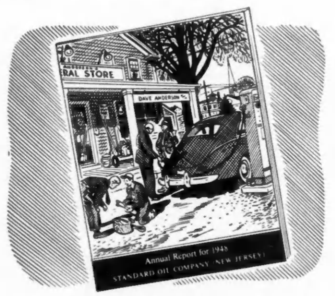


New facilities like this modern refinery help increase oil supplies

5 RELATIONS WITH EMPLOYEES CONTINUED EXCELLENT. Again there were no domestic strikes or work stoppages. At year's end the gross investment in property, plant and equipment amounted to $26,600 for each of the 129,000 employees of Jersey and its affiliated companies.

6 BOTH INCOME AND EXPENDITURES ROSE. As reported in the consolidated statement, total income of all companies was $3,332,187,000, an increase of 40% over 1947. At the same time, costs were also up 40%. $1,386,248,000 was paid for crude oil and other supplies, $573,459,000 paid to employees, $492,000,000 for other operating costs. Taxes of $268,000,000 were paid.

7 RECORD NET EARNINGS, LARGELY PLOUGHED BACK. Consolidated net earnings totaled $365,605,000. Yet this total, plus affiliates' earnings assignable to stockholders other than Jersey, plus all of the year's depreciation allowances was just about equal to the amount of money put back into the business to meet pressing needs for expansion and replacements. Stockholders of Standard Oil Company (N.J.) received dividends of $2.00 per share of the Company's stock, plus a stock dividend of two shares for each 40 shares held.



For copies of the full report write Room 1626, 30 Rockefeller Plaza, New York 20, N. Y.

ALTHOUGH world oil consumption for the year increased 6.5%, and U.S. consumption 5.6% . . . the need was met and more. Threatened shortages were averted. Proved reserves in the earth are greater than ever before. New, modern facilities for meeting present and future needs are coming into operation throughout the world. Increasingly, human progress calls for more and more oil. In every way, the year 1948 was a year of progress and results for an oil-using world.

The better you live, the more oil you use!

STANDARD OIL COMPANY (NEW JERSEY)

AND AFFILIATED COMPANIES

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST
Member of Audit Bureau of Circulations

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YOU ~~CAN'T~~ *Can* GO WRONG!

We've never believed in the "hot tip", "can't miss" approach to securities — and still don't! Any prudent investor knows that sound decisions are based on fact, not fancy . . . that careful selection must always keynote the successful security program, or well-managed portfolio — and that changing values often call for review and revision of plans and holdings.

That's why we think the new issue of our "SECURITY AND INDUSTRY SURVEY" is of particular interest now.

It starts with a general discussion of the whole investment picture, stresses the important forces to consider in a "post-conversion" economy.

Then it takes a separate look at thirty-three different industries—more than three hundred leading companies.

You'll find facts and figures on current position, earnings, outlook . . . charts graphing the 1940-1948 record of each industry in relation to the Merrill Lynch index of 540 stocks . . . a dividend digest that grades and classifies each company on the basis of various investment objectives. In other words, it's forty-eight pages of fact that should help any investor take better advantage of the many investment opportunities offered today.

If you have investments — or if you are considering their purchase— we'll be glad to send you a copy of the "SECURITY AND INDUSTRY SURVEY". More than that, if you would like to tell us about your investment situation, we'll be glad to show you how we think the Survey can be most helpful to you—give you specific suggestions on how you can best attain your own investment objective. Just write—

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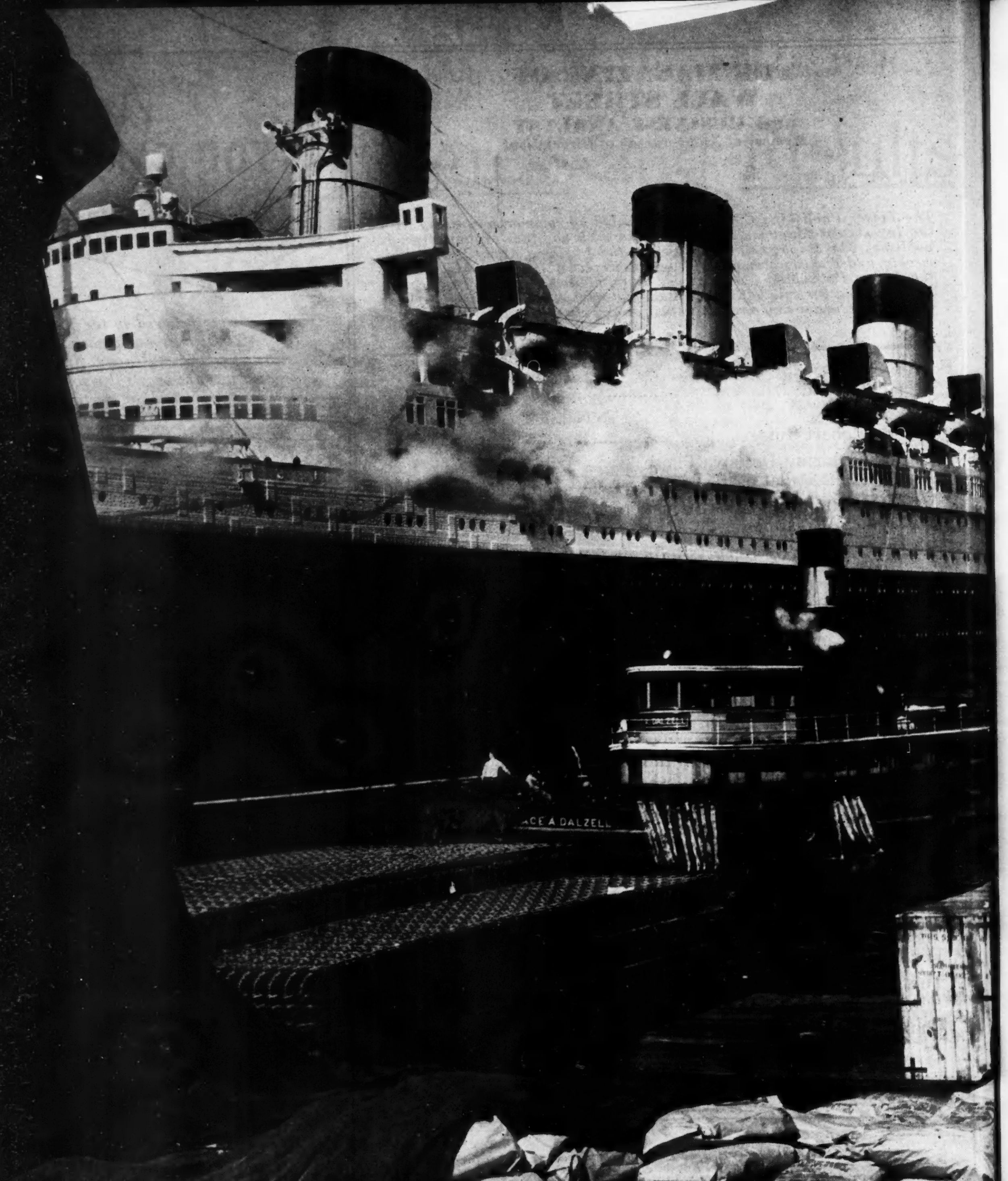

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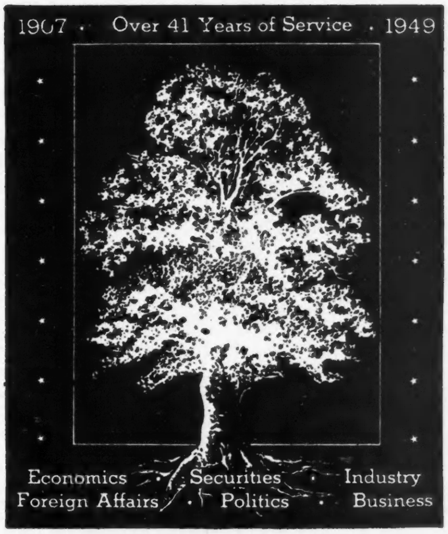
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

NEED FOR ECONOMY . . . Economy in Government is always a virtue but the need for it was never greater than today. It is a need well recognized in Congress where the economy drive is steadily gaining strength. Yet the Administration, outwardly at least, wants to have none of it. It continues to insist on enactment of its spending program and flatly refuses to back water on the demand for higher taxes.

This no-compromise stand is made in the face of what appears a crumbling of a hitherto firm attitude on the subject within the official family. While the President will not tone down his tax demands, some of his counselors have begun to waver. Economic Advisory Committee chairman Nourse and other moderates have swung around to the view that the Administration should at least soft-pedal talk of higher taxes and more controls, and Dr. Nourse advises restraint of Government spending, with other policies to the end of balancing the budget, of not increasing the national debt.

Just how unpromising the budgetary outlook is, is discussed elsewhere in this issue; little wonder that realists like Dr. Nourse and others, particularly in Congress, have changed their views. The reversal is not only politically interesting but plain common sense. One wonders, perhaps too optimistically, whether it points to a reversal of direction in official policy which clearly would be the case, should the President follow the recommended course. Doubtless the burden would be mainly on Congress, for it will not be easy for the President to recede from his demand for measures that entail increased spending and taxing. Yet despite his uncompromising stand on these matters, there are signs that he is not pushing them as actively as in the past. In the circumstances, we can always hope that his latest reiteration of his tax demands are merely a face-saving gesture for the record. If not, his present clash with Congress is bound to widen.

However, there is every reason to believe that the Administration is far more concerned about the business outlook than it lets on. Key Government economists tell the President that the business downturn may continue for months; only optimists like Secretary Snyder expect an early improvement.

Everyone is of course aware that lots of things happened since the President first came out with his demand for $4 billion in additional taxes. The postwar boom since then has deflated with amazing rapidity and the business decline is accelerating. At such a time, with corporate profits headed downwards, larger revenues cannot be obtained merely by increasing the tax rate, for business taxes in these circumstances are beyond the point of diminishing returns. Clearly, if the budget is to be balanced, the accent henceforth must be on rigid economy. Neither higher taxes nor deficit spending offers a sensible way out. Economy in Government may be unpalatable from a political viewpoint, but it is exactly what the national interest calls for. The nation's economic health and stability is far more important than extension of the New Deal.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-one Years of Service"*—1949

WHO WINS IN THE END?... Lay-offs due to the strike at the Ford plants have, as this is written, spread out to engulf some 90,000 of production workers throughout the country and one needn't ask who will suffer most from it. It will be the Ford workers, of course, the rank-and-file which once more is being ground between the millstones of union squabbles.

The strike is certainly something of an enigma. Its immediate issue, the charge of "speed-up," not only is something of an abstraction according to objective observers but intertwined with a complex mixture of other factors, foremost among them union politics. Walter Reuther, president of the U.A.W., seems to be "on the outs" with Thomas Thompson, president of Local 600, the U.A.W. River Rouge unit, and the squabble doesn't do him nor his plans any good. Grievances over a "speed-up" at the Ford plants have been advanced by Left Wingers for some time, creating a good deal of steam, but Mr. Thompson might have been able to head off a strike, despite the popularity of the issue, had he really wanted to. But, it is said, bad feelings between him and Mr. Reuther prevented this despite a reputed request to that end by the latter. Whatever actually occurred behind the scenes, the strike has come off with Mr. Reuther forced to assume leadership, presumably to protect his own prestige and try to salvage his pension negotiation plans. Talks on the pension issue were slated to begin on May 16.

The question now is: Will he be able to get the Ford workers to strike twice if necessary? Or, if the Ford strike continues some time, can U.A.W. bargain for pensions when it still must settle the "speed-up" issue? It would seem that in either case, U.A.W. has placed itself in an unenviable strategic position that can only redound to the disadvantage of the rank-and-file. Doubtless the automobile industry is becoming increasingly concerned over maintaining the utmost efficiency in productivity and as a consequence is not as ready to yield to union challenges on productivity questions as in the recent boom years. It may well be that there may be hard sledding on the pension issue, too. If so, another strike may occur, materially adding to the workers' loss of income they currently suffer. Whatever the outcome of these disputes, the workers will hardly be the winners.

Meanwhile "speed-up" appears to have become the communist war cry in Detroit and we can expect it to be used constantly in an effort to embarrass Mr. Reuther or to try to weaken his position, particularly in anticipation of the forthcoming U.A.W. convention next July. Mr. Reuther, we remember, has been no friend of the communists who by relentless needling of workers and management may do much to keep the industry jumpy at a critical time. They thereby prove that *they* are no friends of the workers, and the sooner the rank-and-file realizes this, the better.

AMERICAN CAPITAL ABROAD...The United Nations Economic Commission for Europe in a recent report declared that American capital investment abroad, aimed at raising productive capacity throughout the world and restoring international currency convertibility, is the "only feasible alternative" for insuring stability in this country's commercial relations with the outside world. In their survey of the European economy in 1948, research and planning experts of the Commission asserted that only a "predictable and reasonably steady flow of dollars" to overseas areas in the form of American capital exports can restore multilateral international trade and ease the payments deficit of European countries. The present system of Marshall Plan grants, they go on to say, geared to estimated minimum deficits of participating countries can never provide the flexibility and the margin required for currency convertibility.

The Commission experts argue from the premise that solution of Europe's critical balance of payments problems is the key to raising living standards and labor productivity on the Continent, for without such equilibrium, the European nations can never maintain the rate of capital formation which alone can lift the low per capita output of most of their people. Proceeding from this premise, they reject the suggestions that either a large increase in European exports overseas or a drastic curtailment of European imports from the USA can solve the Continent's balance of payments dilemma. Even an increase of 60% in their overseas sales would still leave European countries with a $3 billion deficit in trade with this country if the current volume of imports from the USA were maintained. To cover the deficit, Europe would have to expand exports to this country by more than 300%, the report declares, and it is foolhardy to anticipate an increase of European sales here even approaching the necessary magnitude.

The report spotlights a problem that by now has become well defined. Since the essence of the President's proposal, made as Point four of his inaugural address, was a program of private financial assistance to underdeveloped areas, it is clear that the Commission is advocating substantially the same course, presaging closer cooperation between the United Nations and the United States when actual steps are taken to implement the program of global aid espoused by the President.

It also gives full recognition to a point frequently cited by critics of the Marshall Plan when it states: "That this . . . very form of assistance will tend to perpetuate the various emergency measures taken by other countries . . . that these measures, although beneficial from the point of view of the country implementing them, obstruct progress towards conditions of free multilateral trade which are the foundation of global prosperity." The point is well taken. Dollar aid under the Marshall Plan has worked against institution of measures on the part of the participating countries aimed at freer trade relations.

That the role of the U.S. private investor in foreign areas can and should be increased is a sound conclusion though fostering conditions which will expand such investment will not be an easy task. Still it is the venturesomeness of risk capital—a field in which private American enterprise has demonstrated unparalleled capacities—that may be a decisive factor in the economic development of foreign areas. Despite possible cries of "imperialism," the contribution can be made without the necessity of "exploitation for foreign profit" or even of special concessions by foreign Governments so long as the latter are prepared to assure an environment conducive to the safety of capital.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-one Years of Service"*—1949

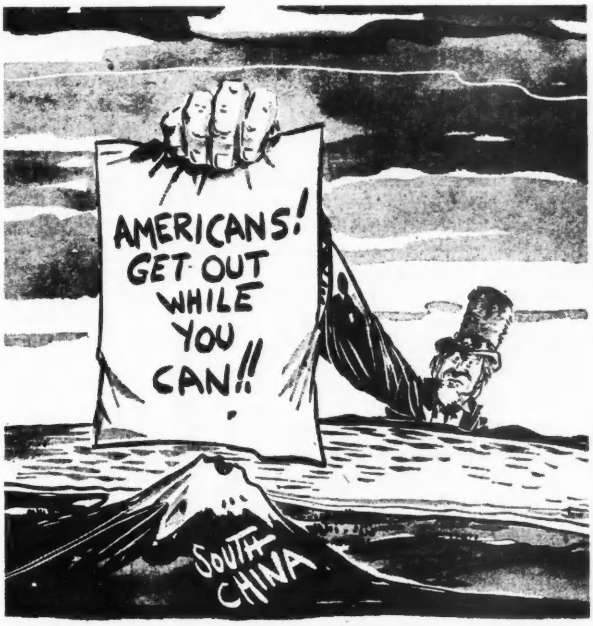
As I See It!

By ROBERT GUISE

AMERICA'S DEFEAT IN THE ORIENT

While the western world watched in stunned and helpless silence, the Chinese communist armies have been spreading out in China at a pace that no purely Chinese-led armies have ever attained before. The impending fall of Shanghai will mark a climax, but by no means a final one, of the cataclysmic development which is casting long shadows not only over Asia but over the entire world.

"THE MAN SAID IT!"



Loring in the Evening Bulletin

The communist victories constitute not only a defeat for the West, in this case primarily for the United States, but the complete fiasco of its entire Far Eastern policy. Its full measure can be gauged by the fact that there would have been no war in the Pacific, had it not been for our determination to support China against Japan. We have defeated Japan, but now find a far greater peril threatening not only China but all of Asia.

For this fiasco, many elements are responsible, not the least among them the failures of the Chinese Government itself. But it is also evident that our own policy was based on fatal miscalculations which led all the way from efforts to support and cooperate with the communists to aid to the National Government which was too little and too late and merely appeared to prolong the civil war without deciding it.

While our aid was insufficient it was by no means piddling. The Nationalists since the start of hostilities between China and Japan in 1937 received from us $3,475 million, of which $2,424 million was given outright and $1,051 million as credits. Unfortunately, graft and corruption in high places saw to it that much of this help failed to fulfill its purpose. As it is, the decision has gone against us. China is all but lost to the West and we are in the difficult and humiliating position of having to wait for something to turn up to aid our cause.

With our China diplomacy a total loss, we must shape a new and flexible Far East policy if we don't want to lose all of Asia by default. Already the communist victories threaten to take all Eastern Asia out of the orbit of the free world and in so doing reduce further the breathing space which that world needs for survival. What's more, they enlist in the communist cause a new and unexpectedly effective fighting force which is expanding the frontiers of Soviet domination and tipping again in favor of Soviet Russia the world balance of power and strategic advantage which the North Atlantic Pact was intended to restore. Having lost the initiative in Europe, the Soviets have seized the initiative in the Far East with agonizing success. That fact calls for new decisions on the part of the West. Above all, it seems imperative to insulate the communist victory in China by far more effective steps than now appear to be included in any Government plans.

The idea that we might be able "to do business with the communists" is as shortsighted as it will prove fallacious and unworkable. In any attempt to appease the Chinese Reds, in any ill-advised attempt to buy them off from allegiance to Moscow, we would not only fail but in the process lose our shirts. It is the very kind of thinking that has led to the abject failure of our policy in the past; to repeat the same mistake again would be worse than foolhardy.

Instead there should be a watchful appraisal of the Chinese situation, with absolutely no aid to the communists in consolidating their power; and we might well undertake a vigorous attempt to create closer defensive ties between the still free countries of South Asia and the South Pacific, in fact all areas accessible to our air and seapower.

The communists may have their troubles in digesting their gains, in ruling and organizing a huge area and population that in the past has never been susceptible to central administration, but to rely on this alone for their eventual downfall would be folly. True there is little that we can (*Continued on page* 208)

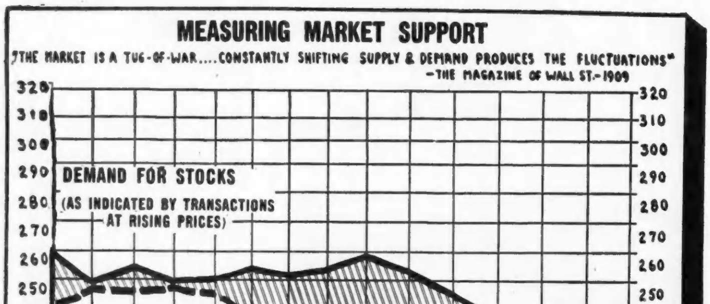
Market Entering Decisive Stage

The risk of important near-term decline appears to be decreasing, and some degree of seasonal rise in the market is probable within the medium-term. The performance is certain to remain highly selective. In view of second-half economic uncertainties, we are continuing a conservative, middle-road investment policy.

By A. T. MILLER

This is "a market of stocks" in more than the usual degree. Each day finds some stocks at new highs for 1949, some at new lows; but the majority not significantly changed. Although the divergences within the market become wide over a period of time, the individual uptrends and downtrends are creeping affairs as viewed from day-to-day or week-to-week. On any typical day, with volume on the New York Stock Exchange around 750,000 shares, over 999 shareholders out of 1,000 are sitting tight, feeling no urge either to do any selling or to add to holdings.

When the market is viewed in terms of a more or less representative daily average or of composite weekly indexes—as it has to be for some purposes—the cross-currents often largely cancel out, giving the appearance of virtually a stalemate. This has been the situation for some time. As shown by the graphs on the opposite page, the general range of fluctuation so far this year has been very moderate—less than half the range of either 1948 or 1947—and that of the last two months or so has been extremely restricted. As shown by the chart on this page—which necessarily employs an averaging method—the over-all supply-demand relationship within the market has long been pretty closely balanced and still is.



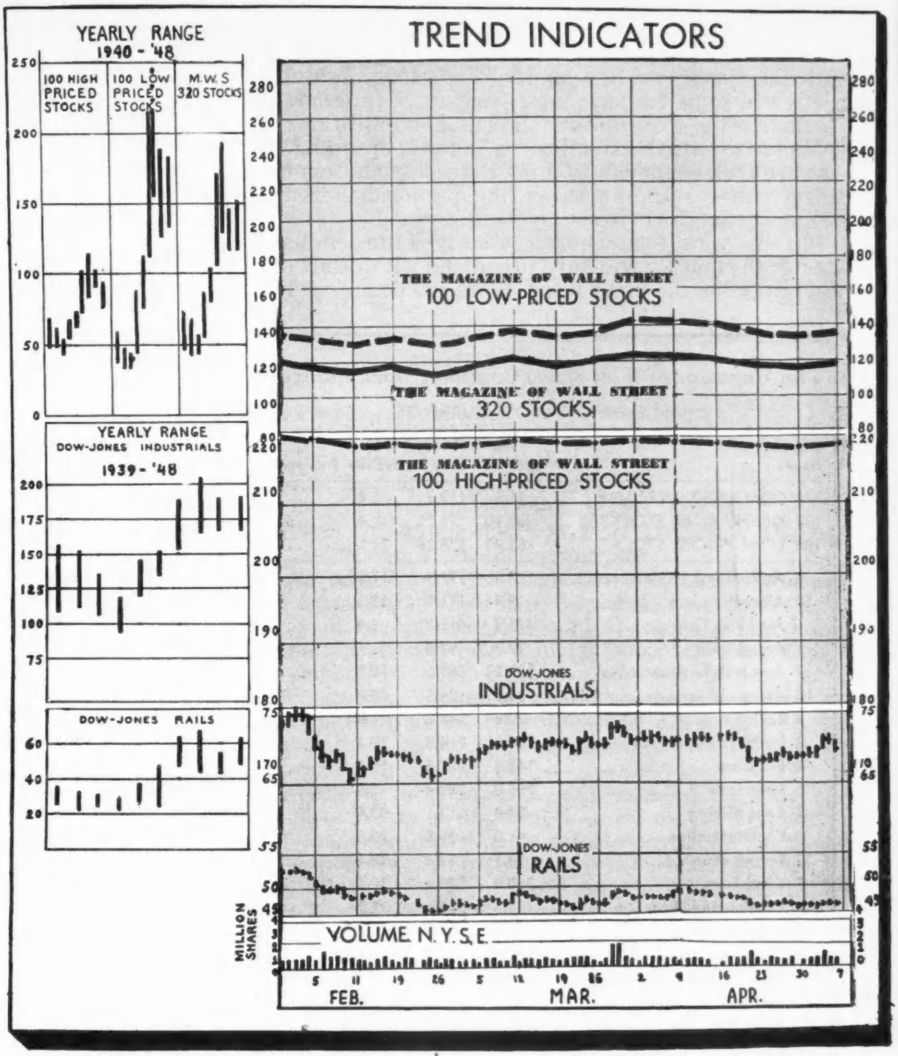
Trend Indications Lacking

There has been nothing in the recent performance which could provide a positive clue as to the direction of the next sizable move in the averages. Yet the negative fact that there is no general liquidating pressure of consequence, in the face of the positive fact of cyclical deflation in business and commodity prices, is significant in itself; and at least for the near-term it certainly puts the burden of proof on the bear side. That is always so when "the market is better than the news." The longer average stock prices hold within the recent range—despite generally adverse statistics on production, employment, income payments and commodity price trends—the less should be the risk of a material decline in the weeks just ahead. Meanwhile, each week takes us nearer to the late spring and early summer period within which normal seasonal tendencies favor at least some degree of general market rise. If it comes, it could well be of proportions smaller than in many past years, for both economic and technical reasons. But the potentiality, modest or not, probably is already working to support the market by causing deferment of contemplated sales.

The thinking of investors and speculators mainly determines what the market does. On the whole, this thinking is not yet effectively bearish—in the sense of inducing a broad liquidating urge—because of the extraordinarily long period of psychological preparation for deflationary economic adjustments. It should never be forgotten that the market has long been "ahead of business." The inflationary boom was discounted by a bull market which ran most of its course before the boom even developed; and the process of discounting the return

to lower and more normal corporate earnings began nearly three years ago. The result is that there is little, or nothing, of either surprise or shock in what has happened to the economy so far.

On the other hand, what "the averages" do always to some extent conditions general sentiment for a goodly number of people, especially the trader-minded, either take their clues entirely from "technical indications" or at least are "pushed" into a more bearish or more bullish mood by market action. It is therefore a matter of some importance, probably tending gradually to bring about a more favorable supply-demand balance within the market, that average stock prices have held above the February reaction lows on repeated tests. This is all the more impressive to the technically minded, since the most emphatic evidence of shrinkage in business has developed since February. Were there a breaking of the February lows, the only nearby support level of any significance, doubtless considerable selling by presently undecided holders would be precipitated; but this threat is apparently greater for some later period of the year than any time soon.



Against this, there are a number of closely-spaced supply levels which imply progressively harder going for the general list on any upside move, without benefit of surprisingly bullish news factors. There is a nearby supply level at the March rally high, established on a considerable spurt of speculative buying when the margin requirements were relaxed. Only a little above that is the January rally high, at which some buyers were "hung up." Above the latter, at intervals of a very few points, are formidable supply levels represented, in order, by the top of the broad intermediate rise of the late spring and summer of 1947, by the top of the pre-election rally of last autumn, and finally by the top of the large March-June rise of last year. Regardless of all-fundamental factors, and despite the uncommon selectivity of the market, these internal (technical) considerations have a pertinent bearing because they relate to the probable demand for stocks and the probable supply for sale at and around given past levels of average prices.

A Later Test Should Be Allowed For

It seems improbable that any Washington developments within the foreseeable future will be capable of affecting the market importantly, one way or the other. There is no chance that Mr. Truman can put through much of his domestic program except on a materially watered-down basis. He would have had difficulty in leading this Congress in any event—the line-up between conservatives and "Fair Dealers" not being decisively different from what it was in either the 80th Congress or the 79th—and Congress has become all the more independent on matters of domestic policy as a result of the change in the economic weather since the election, and of the President's refusal to date to modify any of his campaign pledges in the light of this change. The chances are against either higher taxes or any significant economies — which points to considerable deficit spending in the fiscal year beginning July 1. This will add proportionatey to public purchasing power and make the deflation less severe than it would otherwise have been, but too much weight should not be attached to this factor; for as a stimulative influence a deficit of $2 billion or double that cannot be decisive in an economy wherein total personal income payments are well above $200 billion a year.

Nor are developments in the field of foreign affairs

likely to give the market some fresh impetus. They are pointing against war, but that has been so for some time. Whether a satisfactory settlement in Europe is possible remains to be seen. If so, investors might feel better in some respects, more uncertain in others—including the economic and industrial implications of possible eventual reductions in defense spending, if we are foolish enough to think that Russian Communism will ever be anything but our deadly enemy, whatever its shifts in strategy and tactics.

In this view, economic uncertainty is the dominant factor the market will have to contend with. And "uncertainty" is the right word. Were the downtrend in production and industrial prices to continue at the March-April rate, we would have a situation more properly called depression than recession by the end of this year. And while investors are psychologically prepared for the moderate deflation already visible, this cannot of itself prove that they are prepared for a good deal more deflation.

However, another possibility is that the over-all position by the fourth quarter may not be as poor as pessimists expect. Adjustments are already far advanced in some lines, so that at least temporary stabilization could develop in them, even as other industries begin to head downward or continue present downward trends. One of a number of examples is provided currently by the copper industry. A sharp and rapid price decline led not to demoralization but to a stabilization which seems likely to be effective at least for some time, as implied by the much improved action of copper stocks last week. There might be enough industrial cross-currents to keep the over-all decline in business fairly moderate.

Without trying to look around too many corners, we think that the conservative course is to assume that the last downside market test has not been seen, and to allow for a sterner test of investor nerves within later months of the year than has yet been seen. After all the recession has not yet hit the average stockholder as a stockholder. That is, total corporate earnings have not yet declined more than moderately from the peak fourth-quarter level of last year, when allowance is made for seasonal factors; while total dividends in the first quarter of this year showed a year-to-year gain of 7%. We believe the full-year dividend outlook is reasonably good; but quarterly payments will almost certainly show some shrinkage later on, and the poorest earnings results are, of course, still ahead.

It seems improbable that there can be an adequate basis for taking a confident longer-term view of general market prospects until either business potentials become clearer or the question of whether the full adjustment has been discounted in average stock prices is more definitely answered by market action later on in a convincing series of tests. In the meanwhile there is every reason to expect that a high degree of market selectivity will continue.

The table on this page, comparing recent levels of all our weekly group indexes with those prevailing at the general market's pre-election high of last October, points up the extreme divergences within the market. The decline in our composite index over this period was 15.8%. Declines much greater than that were experienced in the coal-mining group, copper and brass, automobiles, furniture, metals, paper, radio, railroad equipment, railroads, steel and iron, and textiles. Nine groups had net advances over the same period, the largest being in amusements (motion picture stocks) and in gold-mining.

This is, of course, a record of what has happened; and it is not necessarily prophetic. For instance, in two sessions at the end of last week copper stocks made up the losses of the previous month or so. In recent days groups either showing independent strength or holding reasonably near this year's highs to date have included finance companies, food stores, utilities, chemicals, dairy products, drugs and toilet articles, oils, motion pictures and variety stores.

In some instances you have to look behind group performance, since it is an average of differing performances by the individual stocks making up the group index. These can (*Please turn to page* 197)

The Magazine of Wall Street Common Stock Indexes

POST-ELECTION CROSS CURRENTS

No. of Issues		1948 Oct. 23	1949 May 7	% Decline	% Advance
320	COMBINED AVERAGE	141.6	119.2	15.8	....
100	HIGH PRICED STOCKS	88.10	76.26	13.4	....
100	LOW PRICED STOCKS	163.98	135.39	21.1	....
4	Agricultural Implements	222.5	172.9	17.8	....
10	Aircraft	179.4	156.9	12.6	....
6	Air Lines	435.5	412.2	5.4	....
6	Amusement	77.7	92.0	....	18.4
12	Automobile Accessories	209.3	167.6	19.9	....
12	Automobiles	35.1	24.3	30.8	....
3	Baking	20.8	18.8	7.8	....
3	Business Machines	269.6	214.9	20.3	....
2	Bus Lines	142.4	127.6	10.4	....
5	Chemicals	250.0	228.4	8.6	....
3	Coal Mining	24.4	13.1	50.4	....
4	Communication	46.0	36.5	20.6	....
13	Construction	64.1	52.2	18.6	....
7	Containers	300.0	270.1	10.0	....
9	Copper and Brass	108.5	73.6	32.2	....
2	Dairy Products	57.7	59.1	....	2.4
5	Department Stores	62.8	50.7	19.3	....
6	Drugs and Toilet Articles	157.4	151.2	3.9	....
2	Finance Companies	256.8	272.6	....	6.1
7	Food Brands	165.7	154.0	7.1	....
2	Food Stores	68.3	73.0	....	6.9
3	Furniture	81.1	60.2	26.0	....
3	Gold Mining	592.1	689.2	....	16.4
6	Investment Trusts	64.9	58.9	9.2	....
3	Liquor	729.8	634.7	13.1	....
10	Machinery	156.3	129.0	17.5	....
3	Mail Order	111.5	98.9	11.3	....
3	Meat Packing	81.2	68.6	15.5	....
12	Metals, Miscellaneous	180.3	136.4	24.4	....
4	Paper	42.0	30.7	26.9	....
29	Petroleum	272.6	236.1	13.4	....
21	Public Utilities	115.0	115.8	....	0.7
6	Radio	25.6	16.9	34.0	....
9	Railroad Equipment	58.7	43.3	26.2	....
24	Railroads	28.5	20.3	28.7	....
3	Realty	26.1	23.9	8.4	....
3	Shipbuilding	146.1	134.9	7.6	....
3	Soft Drinks	346.3	353.7	....	2.4
14	Steel and Iron	127.0	91.2	28.2	....
3	Sugar	53.3	42.7	19.9	....
2	Sulphur	282.5	272.0	3.7	....
5	Textiles	152.3	104.7	31.2	....
3	Tires and Rubber	34.5	30.0	13.0	....
6	Tobacco	70.7	72.4	....	2.4
2	Variety Stores	319.6	322.5	....	0.9
17	Unclassified	104.6	92.1	11.9	....

Varying Extent To Which Industries Have Completed Their Adjustments

By E. A. KRAUSS

In analyzing the economic adjustment currently going on, it is important to recognize not only its fundamental nature but also the manner in which it has been developing. In either respect the present adjustment phase differs a good deal from former experience despite actual and seeming similarities.

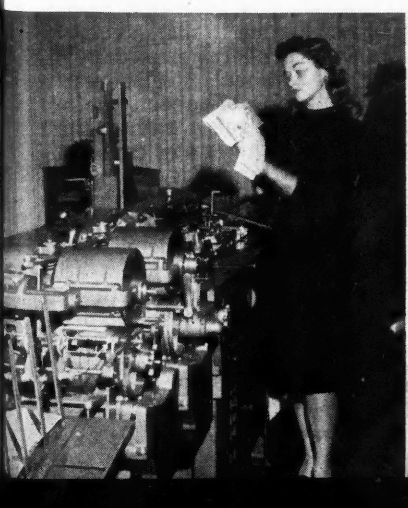
A basic difference lies in its cause, the need to find new and better balanced economic relationships after a prolonged boom fed by monetary inflation and war-caused shortages, and despite the absence of monetary strain and excessive speculation, and in the face of a strong and liquid financial situation. The latter characteristics seldom if ever accompanied recessions in the past, and this is bound to have an important bearing on the future course of the present adjustment process.

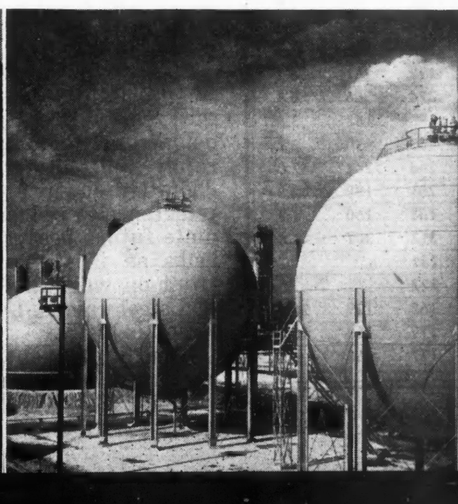
Then there is the piecemeal nature in which the latter has been proceeding; as a result, the effect on the economy has been less severe than it otherwise would have been. As time went on, war-born shortages were made up by degrees and as the catching-up stage was reached in any particular line, operations were reduced to a more normal level of demand. Business found it necessary to fit its output to consumer wants, and curtailment of production and price reduction is part of the process of balancing markets.

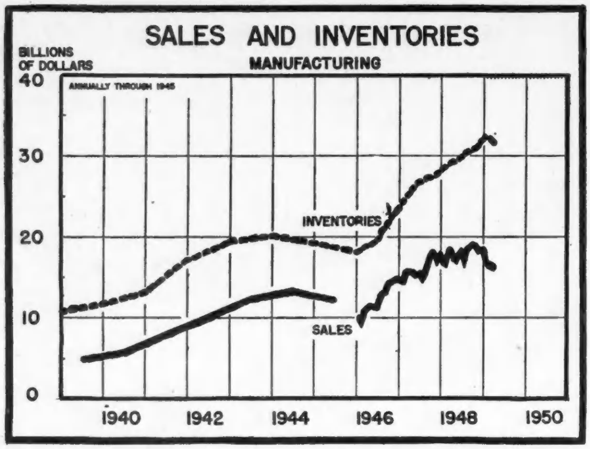
As adjustment widened, the dominant influence all along the line has been to reduce inventories and shorten commitments not only because of the need for adaptation to new demand levels but because deliveries became much more certain and prompt, and there was no longer any need to cover ahead as in the past two years. Naturally such a change in buying policies produces incisive chain reactions as it works down the line.

While a drop in consumer demand may be regarded as the fundamental cause of the recession, its principal outward manifestation is in the form of contraction of private capital formation—that is declining demand or need for producers durable goods and construction, and widespread liquidation of inventories.

The starts of deflationary adjustments in the various lines of business has been widely spaced. In some industries, postwar production peaks, with subsequent declines, were reached as early as 1946 as in shoes and leather, rubber products, cotton consumption and meat packing. These were followed, in 1947, by the liquor, furniture, machinery, coal and cigarette industries. The number of industries reaching demand-supply balance increased considerably last year, embracing virtually all except steel, automobile and cement, and either the first or second quarter of this year will see them go "over the hump."







As the appended tabulation of production indices shows, not only has there been a wide spacing of adjustment starts but the degree of output decline, or production adjustment to date, has varied greatly. In some the drop has been severe, in others it is relatively insignificant as yet. Hence a check of the various industries shows that some are well along in adjusting themselves to changed conditions by curtailing production, reducing prices and working down inventories. For instance, the cutback in cotton goods, rayon, woolens, petroleum, brass and leather has been quite sharp, to mention just a few. On the other hand, some industries operating at capacity against accumulated backlogs but seeing their orders decline, still have most of their adjustment ahead. Generally speaking, it might seem premature to say that curtailment has run its course in any line but correction is certainly under way in most of them, and in some it's gone pretty far. Similarly, in the larger retail organizations, stocks have been brought down moderately and forward orders cut sharply.

Postwar Production Peaks in Principal Industries

Seasonally Adjusted Federal Reserve Board Indices, 1935-39=100)

	Postwar Peak		Latest	% Decline
Composite Production	Oct. '48	195	184	5.6
Manufactures				
Whiskey	Jan. '47	188	118	37.2
Rubber Products	Dec. '46	252	188	25.4
Cotton Consumption	Nov. '46	164	125	23.8
Lumber	Jan. '48	143	113	21.0
Wool Textiles	Feb. '48	185	150	18.9
Shoes	Mar. '46	144	117	18.7
Furniture	Dec. '47	181	193	15.5
Soaps	June '48	151	131	13.2
Meat Packing	Feb. '46	178	156	12.4
Paperboard	Nov. '48	195	174	10.8
Paints	July '48	161	144	10.6
Machinery	Dec. '47	288	261	9.4
Gypsum and Plaster Products	Mar. '48	248	231	6.9
Printing Paper	Oct. '48	172	161	6.4
Rayon Deliveries	July '48	324	306	5.6
Pump (Paper)	Oct. '48	195	188	3.6
Industrial Chemicals	Aug. '48	450	438	2.7
Transport Equipment	Dec. '48	246	241	2.0
Smelting and Refining	Apr. '48	203	199	2.0
Manufactured Food Products	June '48	163	160	1.8
Rayon	July '48	312	307	1.6
Iron and Steel	Feb. '49	231	......	......
Cement	Feb. '49	222	......	......
Coal	Jan. '47	162	129	20.4
Metals, Other Than Gold and Silver	May '48	179	160	10.6
Crude Petroleum	Nov. '48	177	166	6.2

Adjustment Completed in Drug Industry?

There is one field, the drug industry, which looks healthier than a year ago and where adjustment and recession appears just about completed. Raw material prices are levelling off and demand for drugs remains high, easing an industry squeeze that was responsible for an earnings decline in 1947. Most companies saw profits turn up in 1948 and it looks as if 1949 earnings will continue the uptrend.

Elsewhere, various stages of adjustments prevail. Let's discuss first the few industries where adjustment has not yet, or barely, begun. Primarily, this means steel and automobiles, industries in which excess of demand over current supply has persisted longer than almost anywhere else. Now the situation in steel has begun visibly to yield, and the automobile industry is becoming increasingly uncertain about demand for cars after mid-year.

The sellers' market in steel is over and the industry again has to go after business which should remain good through the second quarter. Reflecting less urgent demand, steel operations have been permitted to drop to 96.5% of capacity compared to an above 100% figure prevailing throughout the first quarter. Current output level is still high and order backlogs remain heavy despite some cancellations, but this is hardly the key to activity later in the year. Real signposts are found in the way the business of steel consumers is shaping up; this means that by the third quarter, steel operations will begin to slide. As the "Ironage" recently pointed out, a part of the present order volume is a hedge in case of coal or steel strikes. Should the steel industry not be adversely affected by labor troubles, this extra steel will become inventory which will be worked off later in the year at the expense of new orders. This may lead to sizeable cancellations of third quarter bookings which in the circumstances can harly be considered "firm."

Lower Steel Operations Ahead

The 50% drop in steel scrap prices was an unmistakable harbinger of easier steel conditions; the real test will come when the end of inventory buying brings a further slowdown in operations, when the industry has to cut production to match current consumption. How much are operations likely to drop? Chairman Weir of National Steel foresees the possibility of a decline to 75% of capacity before the year-end, as an informed guess rather than definite prediction. No one at this stage can accurately tell, but the trend after mid-year seems definitely downward. So is the price trend, despite reluctance to reduce mill prices now or in the immediate future because of uncertain labor demands. It looks as if steel management will put up a stiff front on wage and fringe demands from both coal and steel unions. Until the issue is clarified, no price action is likely.

Steel adjustment, in short, has barely begun, both as to production and prices. Both will eventually

come down, making for lower steel company earnings and this is the reason why recent publication of high first quarter earnings has so conspicuously failed to bolster steel shares. For behind the glowing earnings statements looms the long expected decline. This decline may not be as drastic as many may believe, either in scope or earnings impact, particularly the latter where there are many offsetting factors. Still the market has been taking no chances. Steel shares, expressed in terms of our steel group index as shown on page 168, have declined some 28% from their pre-election high. This indicates that a good deal, if not most of the expected earnings slide has already been discounted though no one can be sure of it. At any rate, market adjustment as usual has preceded industry adjustment.

Automobile Industry Still Facing Peak

In contrast with steel, the automobile industry still has its postwar production peak ahead, presumably during the second quarter, barring serious strike interference. For the time being, its production sights are held high but the picture three months hence looks more uncertain; by the end of September at the latest, it is thought, demand and output will decline. There is similar uncertainty about the price picture, with some predictions of sizeable price reductions in August to spur flagging sales. In this industry, too, production and price adjustment is yet to come, with corresponding earnings impacts, though any drop this year may not be a drastic one. In the face of continued high output and excellent earnings, automobile shares as a group have declined over 30% from their pre-election high. An indication of coming events has been the weakening of the used car market; there has also been a marked decline in the demand for service and replacement parts and adjustment in the parts industry is well under way. In the truck industry, of course, production curtailment and price competition has been a feature for some time; adjustment there has gone a considerable distance, particularly in the heavy truck field where output curtailment has been widespread.

Production of cement, long a shortage item, has been setting a new record this spring and despite substantial capacity increase last year, demand promises to exceed supplies in most market areas for some time ahead even if general construction activity fails to match last year's. No early need for adjustment, either in price or production, is indicated, since the industry is in a particularly favorable position to benefit from prospective substantial outlays for public works and road construction.

On the other hand, adjustment in other building materials is well under way as indicated by production and price declines in recent months. Production in nearby months will show a seasonal gain but revival of building activity has so far failed to come up to expectations with residential contracts 20% smaller than a year ago, and private contracts as a whole down 8%. Public building activity now is the industry's main reliance. The indication is that building activity has passed a cyclical peak and that a further lowering of building costs is necessary. While this points to smaller sales and earnings, improved efficiency and operating economy are sustaining influences in most instances. Once operations are fully adjusted to prospective lower volume, better profit margins than more recently prevailed should materialize.

Non-Ferrous Metals, Textiles Far Advanced

Readjustment in prices and general economic factors may already have gone most of the way in such fields as non-ferrous metals and textiles where price cuts have been quite substantial, accompanied by cutbacks in production. In the metals field we have seen a sudden and rapid price break in copper, lead and zinc. Copper in successive moves was put down from 23½c a pound to 18c, lead dropped from 21½c to 13¾c and zinc was also lowered, though less drastically. However, the lower prices for some time were attracting few buyers. Dullness of demand was more apparent among processors than ultimate consumers; the former prefer to work off their sizable and high-priced inventories before re-entering the market.

For a while, while custom smelters pared prices progressively, primary producers in an attempt to outwait them adhered to original and strictly nominal quotations. The waiting game is now over; the primary producers have become convinced that there is no point in holding out; moreover demand should soon revive as inventories of fabricators wane. There is some hope that current copper and lead prices may now hold, or at any rate may not decline much more. If they should draw new buying eventually, the low cost producers such as Anaconda, Phelps Dodge and Kennecott, in the case of copper, should continue to show quite satisfactory earnings. Presumably the same should hold true, in somewhat lesser degree, should copper go down as low as 16c. Marginal companies were hard hit by the severity of the price decline, and some were forced out of business. Low cost pro- (*Please turn to page* 196)

Inventory Position of Selected Companies

For March 31 Quarter

	Inventories —($ million)—		Inventories as % of Sales	
	1949	1948	1949	1948
American Brake Shoe	$15.9	$15.1	53.4%	53.0%
American Viscose	38.7	28.2	74.4	50.0
Atlas Powder	6.2	7.8	73.0	76.5
Borg Warner	54.6	47.6	69.5	61.8
Chrysler	163.0	125.9	40.7	37.0
Clark Equipment	13.0	11.8	72.2	63.0
Colgate-Palmolive-Peet	26.2	43.2	48.0	72.8
Container Corporation	8.6	8.6	30.5	25.3
Eaton Mfg.	13.1	12.9	42.1	42.5
General Motors	890.0	752.5	69.4	69.0
Gillette Safety Razor	13.8	9.6	73.0	51.0
Hercules Powder	20.0	18.6	64.0	53.0
Interchemical Corporation	13.1	14.8	72.6	70.8
Joy Manufacturing	21.4	18.2	148.0	128.0
Keystone Steel & Wire	6.8	3.9	66.5	45.0
Monsanto Chemical	34.9	29.3	86.5	76.0
Motor Wheel	9.9	7.7	73.0	52.7
National Supply	40.8	32.4	101.0	104.0
Pittsburgh Steel	18.5	20.3	60.5	91.0
Sylvania Electric Products	26.6	25.5	98.2	104.0

What First Quarter Reports Indicate

— FOR THE REST OF 1949

By WARD GATES

★ ★ ★

Accumulation of a more comprehensive list of corporate results in the first quarter makes it possible now to appraise industrial trends more clearly. Considered statistically, the overall earnings picture seems to show an unexpected slight improvement compared with a year earlier, but this was explainable for special reasons that may lose force in following periods. Marked diversity in gains and losses among various industries and their components reflects only the beginning of the struggle to establish stability throughout the economy after necessary readjustments. Hence it is not safe to accept first quarter results of any concern as a reliable indication of expectancies in the year.

The National City Bank of New York has compiled some interesting statistics covering 500 representative concerns, mainly manufacturers, to show their varying progress in the first quarter. While this picture is somewhat limited in scope compared with the broader one that will soon follow, it provides some dependable clues to what may be anticipated. The composite net income of this sizable group was about 6% higher in the recent quarter than in the same 1948 period, surprising indeed considering the rather spotty conditions that have prevailed since 1949 began. Partly for seasonal factors, though, earnings of the same companies were 18% less than in the December quarter when holiday buying was at its peak. In studying overall results, allowance must be made for substantial earnings gains achieved by a few industrial groups, such as automobile manufacturers, producers of auto parts, steel and heavy machinery. Heavy backlogs in these divisions sustained record output, thus creating very satisfactory earnings that more than offset reduced earnings by other groups. Numerically, 230 concerns reported combined earnings that accounted for the gains, while 270 comprising the losers experienced a downtrend in net. This tally, though, does not reveal the varying gains and losses of the individual concerns.

In considering these relationships and trends, it is important to realize that first quarter earnings, whether good or bad, do not clarify the current status of most concerns as to progress made in readjustments to rapidly changing conditions. Some firms for as much as a year past have had an opportunity to tackle their problems arising from declining volume, while others had to face these problems much later, some only recently. Then some groups that seemingly have forged ahead in the first quarter have largely done so on momentum created by sizable unfilled orders, irrespective of a slackening of incoming orders and signs of increasing price weakness in their fields. In other words, the real period of readjustment for some has hardly begun, if at all, while in others it is possible that the worst has been seen, or that efficient management has the situation well in hand.

Rail Equipment Manufacturers An Example

No better sample of the illusive character of reported earnings gains in some cases is provided than by the experience of railroad car manufacturers in the first quarter. Nine railway equipment concerns reported combined net earnings of $10.8 million, an advance of 27.9% compared with the first three months of 1948. Increased availablity of steel permitted some units in this group to establish production records. As it happens, though, the railroads have placed only a negligible amount of orders for

Net Income of Leading Corporations for the First Quarter

(In Thousands of Dollars)

No. of Cos.	Industry Groups	Reported Net Income: First Qr. 1948	Reported Net Income: Fourth Qr. 1948	Reported Net Income: First Qr. 1949	Per cent Change From: First Qr. 1948	Per cent Change From: Fourth Qr. 1948
25	Food products	$ 36,700	$ 42,554	$ 34,028	— 7.3	—20.0
28	Textiles and apparel	36,584	34,206	17,603	—51.9	—48.5
21	Pulp and paper products	20,918	20,655	15,735	—24.8	—23.8
43	Chemicals, drugs, etc.	110,637	141,565	124,590	+12.6	—12.0
16	Petroleum products	186,935	225,018	162,407	—13.1	—27.8
22	Cement, glass, and stone	29,847	42,708	33,446	+12.1	—21.7
38	Iron and steel	111,935	189,862	185,759	+66.0	— 2.2
13	Building, heating, plumbing equipment	8,722	16,560	4,879	—44.1	—70.5
16	Electrical equipment and radio	45,517	67,514	44,731	— 1.7	—33.7
39	Machinery	21,192	33,439	26,143	+23.4	—21.8
9	Office equipment	17,191	16,893	15,327	—10.8	— 9.3
10	Autos and trucks	107,774	132,235	152,878	+41.9	+15.6
26	Automobile parts	26,739	34,606	27,046	+ 1.1	—21.8
9	Railway equipment	8,446	10,503	10,803	+27.9	+ 2.9
60	Other metal products	53,949	72,135	53,654	— 0.5	—25.6
44	Miscellaneous manufacturing	52,926	64,396	44,443	—16.0	—31.0
419	Total manufacturing	876,012	1,144,849	953,472	+ 8.8	—16.7
36	Mining and quarrying	40,057*	49,091*	33,586*	—16.2	—31.6
25	Trade (retail and wholesale)	28,680	36,127	18,233	—36.4	—49.5
20	Service industries	10,049	12,217	11,138	+10.8	— 8.8
500	Total	$954,798	$1,242,284	$1,016,429	+ 6.5	—18.2

*Before depletion charges in some cases.
Source: National City Bank Bulletin.

new cars thus far in 1949, so that these manufacturers have been forced to live on "fat" that is rapidly vanishing. Some have begun to cut production, a trend that may become severe before long unless the railroads quickly reenter the markets. The leading producers of locomotives still have enough orders on hand to assure fairly good sales throughout 1949 and lower prices for materials may stabilize their earnings, but prospects for car manufacturers under current conditions is rather discouraging, despite their good showing in the first quarter.

Combined earnings of 38 iron and steel concerns rose 66% in the initial period of 1949 over the corresponding 1948 span. This was the largest gain reported by any industrial group. During most of the first quarter, the steel industry operated at better than 100% of capacity in the rush to deliver accumulated orders from the automotive, construction and

Quarterly Net Sales and Earnings of Selected Companies

	Net Sales—$ million: 1948 March	1948 June	1948 Sept.	1948 Dec.	1949 March	Pre-Tax Margin: 1948 March	Pre-Tax Margin: 1949 March	Net Per Share: 1948 March	1948 June	1948 Sept.	1948 Dec.	1949 March
Air Reduction	$22.2	$23.5	$24.3	$24.8	$24.2	10.2%	12.6%	$.50	$.61	$.60	$.64	$.66
American Cyanamid	55.9	59.1	58.3	61.9	57.8	7.2	10.2	.78	1.07	.87	1.11	1.21
American Radiator & S. S.	51.6	56.6	60.7	67.2	44.7	n.a.	n.a.	.48	.50	.70	.88	.37
American Viscose	56.1	60.7	62.4	63.7	51.9	23.3	22.2	3.30	4.05	4.01	2.29	3.06
Bethlehem Steel	295.6	303.2	324.7	389.1	363.5	9.4	16.0	1.55	1.50	2.34	3.97	3.29
Bigelow-Sanford Carpet	20.7	22.1	19.4	23.0	19.8	7.7	n.a.	1.39	2.36	2.02	2.34	1.28
Budd Co.	55.3	53.7	51.1	59.5	67.4	9.0	9.7	.77	.60	.73	.38	1.04
Chrysler Corp.	336.5	333.1	407.4	498.5	401.2	7.3	7.0	1.71	2.40	2.77	3.37	2.15
Colgate-Palmolive-Peet	59.4	52.4	59.3	49.3	54.7	9.9	10.4	1.85	.66	1.52	1.66	1.71
Crown Cork & Seal	23.1	24.3	29.4	21.8	19.9	11.6	4.3	1.25	.84	.93	.30	.32
Du Pont	222.2	239.1	253.4	263.0	251.8	25.0	27.7	2.46	2.66	3.24	4.76	3.65
General Foods	120.0	104.5	112.3	126.5	127.8	10.6	9.5	1.42	.99	1.14	.70	1.32
General Motors	1,089.2	1,145.6	1,201.6	1,265.4	1,282.3	16.3	18.0	2.12	2.43	2.67	2.50	3.04
Inland Steel	90.5	88.6	101.0	112.5	101.7	15.1	15.0	1.73	1.33	2.00	2.82	1.89
Jones & Laughlin Steel	97.5	105.0	112.9	130.6	116.9	9.2	14.2	1.93	2.41	3.39	4.28	3.84
Mack Trucks	31.0	31.6	26.9	19.6	17.5	7.7	def.	.96	.68	.40	def.49	def.34
Mengel Co.	10.6	8.5	9.1	7.3	7.0	12.2	def.	1.32	.80	.65	.35	def.22
Phillips Petroleum	100.6	111.1	117.6	164.0	125.2	24.0	13.8	3.00	3.03	3.18	2.80	2.10
Skelly Oil	40.9	44.6	46.7	47.1	41.6	29.4	25.0	7.55 a	7.94 a	9.00 a	8.31 a	6.56
Studebaker Corp.	91.7	92.5	93.9	106.1	113.7	7.7	7.3	1.81	1.65	2.23	2.43	2.21
Youngstown Sheet & Tube	88.0	82.4	96.6	114.7	106.6	15.0	19.0	3.83 b	3.35 b	4.36 b	7.39 b	5.98 b

a—Adjusted to present capitalization. b—After construction costs and contingency reserve.
n.a.—Not available.

other groups. With prices down, margins of many steel concerns widened impressively, all to the benefit of net earnings. The appearance of competition, with signs of price concessions here and there, has reduced steel output to around 96% in recent weeks, thus pointing to lower earnings in the second quarter and probably for the full year, though the decline may be moderate. The experience of different concerns may vary, according to cost advantages derived from completion of modernization programs, together with well entrenched trade positions, but steel earnings generally may have reached their peak in the first quarter.

Brilliant Earnings of Steel Companies

Another table lists several steel concerns among those in other industries that have reported progress for the recent quarter. First quarter profits of Bethlehem Steel Corporation were more than twice as large as in the same period last year, due to 26% higher volume that widened pretax margins to 16% compared with 9% a year earlier. Net of $3.29 per share compared with $1.55 in the 1948 interval. The management of this concern, while admitting that steel supply has become balanced with demand, is rather optimistic over the outlook. Domestic and foreign demand should remain substantial, while the company's shipyards will remain active for more than a year ahead. Bethlehem's unfilled orders declined to $622 million from $671 million at the beginning of the year but compare very favorably with $474 million as of March 31, 1948. New orders booked in the first quarter amounted to $314 million in contrast to $362 million a year earlier, but any cancellations received were promptly placed with other customers.

New production and shipment records were established by Youngstown Sheet & Tube Company in March, though volume for the quarter was somewhat lower than in the December quarter. Compared with the previous March quarter, the sales gain was about 20%, pretax margins were 19% versus 15%, and net earnings rose to $5.98 a share compared with $3.83 after reserve adjustments in both cases. Frank Purnell, president, has placed sheet and tube operations in the first quarter at 106-3/10% of theoretical capacity, but cautions that the last half year will bring lower operating rates and hints that somewhat smaller earnings must be expected.

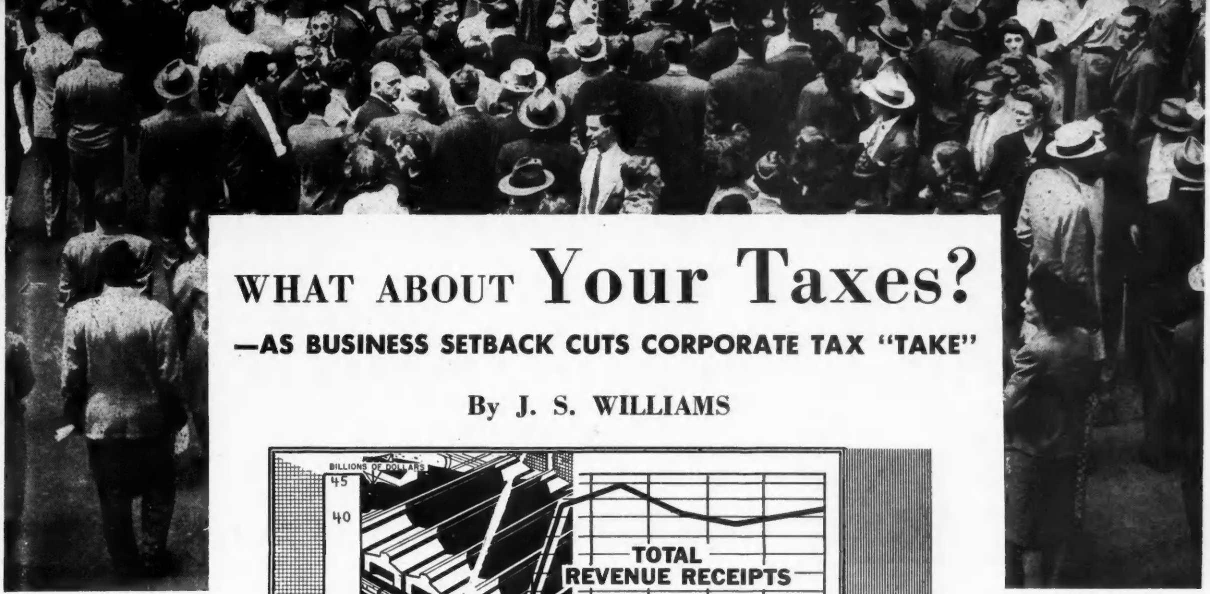
Textile, Apparel Earnings Off

In sharp contrast to the steel industry, manufacturers of textiles and (*Please turn to page* 196)

Dividends on Common Stocks Listed on the N. Y. Stock Exchange — First 3 Months, 1949

Industry	No. of Issues Listed (3-31-49)	Number Paying Cash Dividends In First 3 Months 1948	1949	Number Paying Increased Dividends	Number Paying Same Dividends	Number Paying Reduced Dividends	Estimated Aggregate Amount of Dividend Payments 1st 3 Mos. 1948	1st 3 Mos. 1949	Per Cent Change
Amusement	21	16	14	2	7	7	$ 13,489,000	$ 11,826,000	—12.3%
Automotive	66	50	46	22	23	8	66 522,000	94,976,000	+42.8
Building	28	23	23	9	11	3	9,745,000	9,478,000	— 2.7
Business and Office Equip.	10	9	9	2	7	0	6,872,000	7,490,000	+ 9.0
Chemical	76	65	63	12	46	8	86,865,000	98,799,000	+13.7
Electrical Equipment	19	17	15	4	10	3	19,204,000	22,034,000	+14.7
Farm Machinery	8	6	6	2	3	1	12,080,000	12,095,000	+ 0.1
Financial	30	19	19	7	9	3	19,269,000	19,387,000	+ 0.6
Food	66	57	53	7	35	16	55,917,000	48,428,000	—13.4
Garment Manufacturers	6	6	6	0	4	2	1,014,000	942,000	— 7.1
Land, Realty and Hotels	6	3	4	1	3	0	695,000	926,000	+33.2
Leather and Shoe Mfrs.	11	9	8	0	4	5	5,854,000	5,450,000	— 6.9
Machinery and Metals	99	81	82	22	52	11	32,576,000	34,549,000	+ 6.1
Mining	38	25	24	8	15	3	30,971,000	32,826,000	+ 6.0
Paper and Publishing	33	30	29	6	21	3	14,403,000	15,505,000	+ 7.7
Petroleum	43	32	34	17	15	4	84,749,000	93,599,000	+10.4
Railroad	82	41	42	11	30	4	55,116,000	61,444,000	+11.5
Retail Merchandising	72	61	59	11	39	11	68,720,000	73,103,000	+ 6.4
Rubber	10	8	8	0	6	2	10,616,000	8,507,000	—19.9
Shipbuilding	5	3	3	0	3	0	727,000	727,000	......
Ship Operating	6	4	4	0	3	1	3,074,000	2,898,000	— 5.7
Steel, Iron and Coke	39	28	30	16	14	0	33,612,000	45,849,000	+36.4
Textile	37	34	36	13	16	7	21,152,000	20,286,000	— 4.1
Tobacco	16	14	14	3	11	0	18,689,000	20,417,000	+ 9.2
Transportation Services	4	2	2	0	1	1	294,000	219,000	—25.5
Utilities	75	57	57	14	40	5	110,859,000	121,430,000	+9 .5
U. S. Cos. Oper. Abroad	24	8	9	2	3	4	11,980,000	11,223,000	— 6.3
Foreign Companies	16	11	12	4	7	1	24,741,000	26,055,000	+ 5.3
Other Companies	50	24	29	14	14	4	9,992,000	16,577,000	+65.9
Total	996	743	740	209	452	117*	$829,797,000	$917,045,000	+10.5

*Payments were reduced on 79 issues and eliminated or deferred on 38 issues.
Source: Magazine "Exchange" published by N. Y. Stock Exchange.



WHAT ABOUT Your Taxes?

—AS BUSINESS SETBACK CUTS CORPORATE TAX "TAKE"

By J. S. WILLIAMS

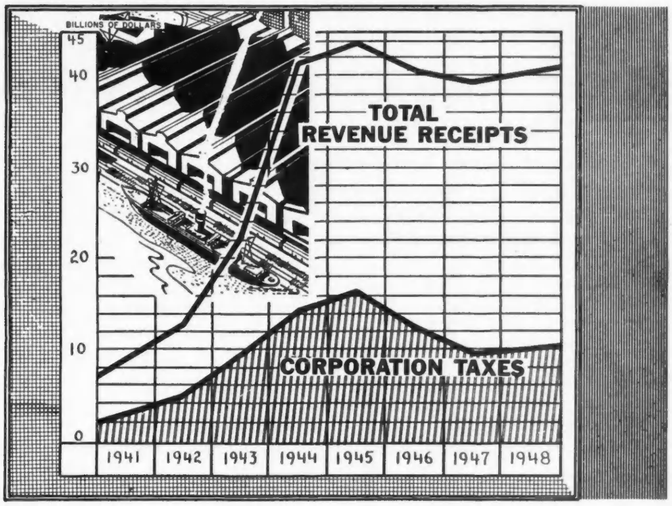


Photo by Devaney

Senator Byrd, spearheading the economy drive in Congress, in a recent statement forecast a budget deficit of $11 billion at the end of the 1951 fiscal year unless the Federal Government drastically cuts spending, increases taxes or goes in for deficit financing — a bleak outlook indeed. Some may be inclined to question the size of the figure which the senator projected but closer study of the situation reveals that it need by no means be far-fetched.

The budget situation is definitely worsening. With less than two months left in the fiscal year 1949, the Government appears headed for a bigger deficit than the $600 million forecast by the President last January. While the Administration officially stands pat on that forecast, some officials privately believe that spending may well exceed income by $1 billion and perhaps more by the time the fiscal year ends on June 30. Beyond that, prospects are even less encouraging. Heavy spending is likely to continue unabated but scheduled revenues are increasingly threatened by a lag in tax collections, attributable to recent declines in business and employment. Official Washington is aware of this trend. If it continues, next year's deficit may be nearer $4 billion than the $873 million envisaged in recent estimates.

Comparative First Quarter Statistics

($ million)

	Net Sales		Net Before Taxes		Income Taxes	
	1949	1948	1949	1948	1949	1948
Acme Steel	$14.6	$14.9	$2.1	$3.2	$.8	$1.2
American Stove	3.3	6.9	def.9	.4	Nil	.1
American Viscose	51.9	55.9	11.5	13.0	4.9	5.9
American Woolen	40.8	48.9	2.4	7.9	.9	3.0
Atlantic Refining	120.8	107.0	9.7	11.8	1.8	3.5
Best Foods	22.7	28.7	1.6	3.9	.5	1.5
Bliss, E. W.	5.6	6.4	.6	1.0	.2	.4
Crown Cork & Seal	19.9	23.1	.9	2.7	.3	1.0
Continental Oil	80.2	79.0	14.6	19.0	3.8	5.2
Felt & Tarrant Mfg.	2.3	3.2	.4	.9	.2	.4
Flintkote	12.8	17.5	1.2	2.6	.5	1.0
Gillette Safety Razor	18.9	18.9	4.8	6.4	2.3	2.7
Gotham Hosiery	3.0	3.7	.3	.8	.1	.3
Lion Oil	n.a.	n.a.	3.3	4.5	1.1	1.6
Mack Trucks	17.5	31.0	def.8	2.4	.3	.9
National Cash Reg.	42.0	40.0	5.5	6.4	2.5	3.1
Phillips Petroleum	125.2	100.6	17.3	24.7	4.6	6.5
Procter & Gamble	n.a.	n.a.	9.6	28.3	2.0	10.7
Quaker St. Oil Ref.	11.1	13.2	.8	1.6	.3	.6
Reeves Bros.	16.4	17.6	1.9	3.2	.8	1.2
Shell Union Oil	205.2	207.8	30.2	42.8	8.0	13.0
Standard Brands	62.9	72.9	2.9	4.7	1.1	1.8
U. S. Rubber	121.5	130.5	6.6	8.6	2.6	3.4

n.a.—Not available.

Tax collections are beginning to feel the impact of receding business and business profits. Even with a relatively moderate business decline, revenues could drop substantially below estimates. Thus much will depend on the future trend of business; sensitive as revenues are to fluctuations in income taxes, both corporate and individual, a lengthy recession evidently would be a serious matter from a budgetary standpoint.

In this connection, a study of tax liabilities as shown in first quarter corporate reports is revealing. In the accompanying tabulation we have listed figures for a number of companies chosen at random and without particular regard to their tax status. They show how even moderate declines in sales and net profits have markedly reduced tax liability. Where sales fell off more drastically, resultant reduction in tax liability has been quite severe, illustrating how the corporate tax "take," even without any change in tax rates, may drastically dwindle under economic adjustment.

Take, for instance, American Woolen, whose sales declined from $48.9 million in the first quarter of 1948 to $40.8 million for (*Please turn to page* 206)

Legislation We Don't Have To Worry About

By E. K. T.

OVERCONFIDENCE of the republicans won President Truman the election fight, and he has lost the labor legislation fight through his own supreme confidence, urged on by labor leaders who failed to reckon with a congress made up largely of members who voted to override the Truman veto of the Taft-Hartley Act. If recommittal of the Wood Bill is a victory, it's a Pyrrhic Victory. Debate crystallized sentiment on fundamentals found in both the Wood and the Taft-Hartley drafts. Put simply, the country will operate under either of these two bills, and they're almost identical. The Wagner Act is out.

DEPARTMENTAL heads are scurrying about to revise their budgets, squeeze out the water, and confine them to items which can be justified before congressional committees which finally have sharpened their pruning knives. Rep. Clarence Cannon, democratic head of the appropriations committee, held his fire as a "good party member" as long as his conscience would permit. With brief case loaded with data on wasteful spending, lowering costs for comparable services in private business, he's dropping in on subcommittee meetings. His presence has had salutary effect.

MEDICAL MEN missed the boat in their fight against socialized medicine by refusing to become earthy in their attack and electing to remain in the stratosphere, but where they have failed, the universally-understood argument of dollars-and-cents is winning. Labor is trying to revitalize its campaign with a slogan, "Buck-a-Week Health Insurance." It isn't catching on. The three-way payroll tax—employer, employee, and government—quarrels with the figure. And Britain's experience is dampening remaining enthusiasm.

CONFERENCE recently between Senator Walter George and Rep. R. L. Doughton explored the need for tax increase this year, found none. Industrial and farm employment indexes were studied, found down to a point where added taxes on corporations or individuals would be unwise. George and Doughton seldom are wrong on tax predictions, and they say "forget it." Federal Reserve Board is not likely to get new credit controls, unless there's a change of atttiude. The President's stand-by controls are shelved. Brannan agricultural plan will be completely overhauled. Higher minimum wage is a distinct possibility.

WASHINGTON SEES:

The trend toward socialistic government which was apparent from the start of the 81st Congress, evidenced by the Presidential messages and the deluge of bills which went into the hopper (many of them drafts by inexperienced lawmakers who promised the voters everything, were surprised at their own elections, and now seek to fulfill their promises) can be put down as checked.

The White House prefers to tag all of its reverses with the label of republican-Dixiecrat coalition, but the underlying causes are more profound. There's a growing conservatism and a feeling of independence on the part of congress. They are the factors producing the results.

The coalition will continue, and will make itself felt. President Truman has himself to blame. His civil rights bills may have steered the southerners into the GOP camp, but the natural inclination of the south to proceed slowly, preserve state's rights, and adhere to constitutional government, is keeping them there. Fundamentally, the Truman Plan is one of big, centralized government. Historically, the south has been against that. So, too, have the republicans. The political marriage, therefore, is a natural one. Held back by the protracted, bitter fight over labor legislation, are dozens of bills of socialistic flavor. Time is running out; this in itself can defeat them.

As We Go To Press

The belated economy wave in the house of representatives shows signs of sticking. Charge was made that the Taber-directed slashing in the 80th Congress was based on nothing more realistic than forcing departments to get along on less money. That many couldn't do it is shown by the deficiency appropriation bills in the current session which mean that the taxpayers must pay next year for operations of this year.

However, when the house made a 15 per cent reduction in proposed appropriations for a group of public works projects, its considered judgment was that bids will be 15 per cent lower than those prepared by the engineers when they prepared estimates last fall. One of the leading states in public projects, California had the experience of receiving bids which in general run 24 to 30 per cent under 1948 costs. Congress is simply following a "trend."

Argument that the problem of taxation can be approached with the idea that static rates can be counted upon to bring in additional revenues (under the impetus of encouragement given business), has support in recently-released findings related to state gasoline taxes. The data were prepared by the National Highways Users Conference which is primarily interested in defeating new levies by the states, but also views with alarm, the talk of new and higher federal taxes.

Average revenues from the gasoline tax have more than doubled in 25 states whose gasoline tax rates have remained unchanged since 1935. The average was 109 per cent, the smallest increase was 38 per cent, and the largest was 186 per cent. In these states, the tax ranged from a low of two cents to a high of seven cents a gallon.

Consumers, delaying buying in the hope that full benefits of price cuts at the production level will be realized by them, are postponing an upswing in business for a happening that cannot come about. Economic offices of the government are aware of this; yet they have put on no campaign to tell householders and other buyers the simple facts of business life. Fact is that agencies which report the developments too often like to fancy themselves as the creators, rather than merely the recorders.

Their unwillingness to state the demonstrable fact that many of the downward spirals have about run their course is keeping countless dollars out of the market places. While Bureau of Labor Statistics, and others, know by history and experience that price reductions will be reflected at retail levels, they also know, but aren't pointing out, that the cuts will be thinned on the route from producer to consumer.

Needed NOW is an educational campaign -- BLS would be a good starting point -- to inform consumers how lower costs at the production can be overtaken in the several steps to the retail shelves. The increases, and effect, in wage schedules, higher freight rates, local taxation, and general overhead, are items beyond the control of the final seller. Producers, having cut their prices, can't be expected to conduct such a campaign; merchants hesitate to sound a discordant note in these hopeful days; and government is doing nothing about it.

President Truman's anti-inflation program (he still considers it a "must") has received an indirect blow as a result of Federal Reserve System lowering of

reserve requirements for member banks. The action is being cited as proof of a switch in the economic situation. It will release funds for loan expansion or increased investments, is being termed "anti-deflationary."

Federal Reserve Bank Board is watching closely to learn whether lowered reserves will increase interest in borrowing to any appreciable extent. Shrinkage has been noted in recent months -- a "borrowers" market in a sense. In any event, lowering of reserve requirements will be compulsory next month unless congress extends the power to raise them, granted last year. The board action is seen by some as "lobbying" for that extension, by showing a purpose to adjust to changing conditions, meanwhile staving off the considerably higher reduction that would result from failure to extend the powers.

This line of reasoning finds some attentive ears on Capitol Hill: Even if private loans aren't affected, release of reserve funds will enable banks to increase holdings of government securities, may tend to lower interest rates. That's important as the government edges toward deficit financing, begins prospecting for outlets on favorable terms.

After years of discussion, state, county and municipal associations have placed before the Treasury Department a scheme for zoning off areas of taxation designed to lessen dependence of local entities upon the federal government. Support for the plan comes principally from the states and communities most heavily taxed already; opposition springs, naturally, from the low-tax areas which look to Washington to take up the slack between their tax revenues and the costs of municipal services.

Important among the suggestions is payment of tax, or amounts in lieu thereof, on federally-owned properties. Every state in the Union has an interest. Several have only a fraction of their acreage titled to owners other than the USA. States also would like exclusive right to tax alcoholic beverages, and to collect such excises as those on admissions, gasoline, electricity and local telephone calls. Inherent in this expression of interest is acceptance of the belief that congress will not vacate the field of excise tax during the current session.

Federal Works Agency has added up items of public construction "under building" since before the war and arrived at the astronomical figure of 100 billion dollars. This type of work was shunted aside over a 10-year period while materials and manpower went into production of plant and materiel to serve the armed forces, and living quarters for the civilians serving those ends; and in the post-war period, construction of housing for returned veterans, building of industrial and commercial facilities took first priorities.

FWA isn't aiming at anything bordering on 100 billion dollars, admits that not even blueprints exist for any substantial fraction of that sum. But a start is urged. Otherwise, it is pointed out, the once scarce materials will not be produced. Forecast for the remainder of this year is a mild depression in those areas of industry. The pipelines now are filled.

Cited are production decreases of steel ingots, pig iron, fabricated structural steel, gypsum board and lath, Portland cement, brick, clay sewer pipe and rigid steel conduit. Exceptions found include asphalt roofing, clay structural tile, and softwood plywood. Signs of slackening were found in production statistics covering gray iron castings, cast iron pressure pipe and soil pipe, structural insulation board, asphalt, drain and hollow tile, lumber, hardwood flooring, plumbing and heating items, and road oil.

With economic recovery well advanced, Europe again faces the task of selling its goods, and the job of selling henceforth will be more difficult.

Where Will EUROPE Market Its Expanded Production?

By JOHN DANA

With the rapid implementation of the Marshall Plan during the last twelve months, Europe has successfully completed its first phase of economic recovery. But the real proving period still lies ahead. While the Marshall Plan has been a great booster of production, progress toward expanded trade has been rather slow and disappointing, and from now on it is active trade that Europe needs to dispose of its mounting output of goods.

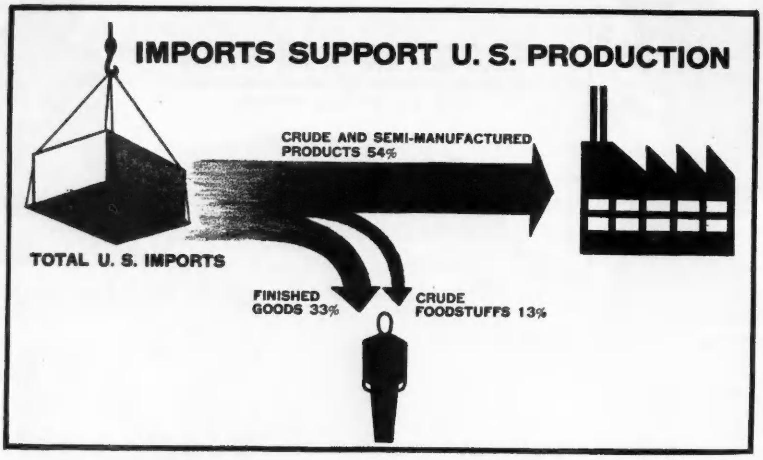
Thus as recovery proceeds further, it may well be that the problem of finding markets for Europe's exports may in the long run exceed that of reviving Europe's industries. For if European countries cannot sell their goods in mutual trade because of undue accent on self-sufficiency and other restrictive measures, lasting and sound economic recovery remains in jeopardy with possible far-reaching internal and external repercussions. If exports lag because of overpricing, sound trade is equally impossible. In either respect, Western Europe today faces crucial decisions. Quick action is needed in easing restrictive controls lest European trade finds itself in a straitjacket. And price problems require attention lest Europe finds itself priced out of world markets on which it must increasingly rely for economic health and stability.

Declining prices here and elsewhere have intensified these problems; deflation pangs are not felt here alone but foreign exporting nations face equal difficulties in adjusting themselves to the downtrend in prices. Buyers all over the world have become increasingly price-conscious and this has become no small deterrent, for the moment at least, to broadening world trade. The job of selling henceforth will be much more difficult, and this is bound to affect our own trade position both directly and indirectly.

Progressive European recovery has influenced our external trade for some time. Last year for instance, our exports exceeded imports by $6.3 billion, a sharp decline from the $11.2 billion excess of exports in 1947. Government aid, though down about $1 billion, went a long way towards helping foreign countries cover that excess which measures their net debt to the USA on current transactions. Our Government furnished $4.3 billion in grants and $400 million in loans. Foreign nations put up another $900 million by digging into their gold and dollar reserves, and obtained the rest from private gifts, loans and other cash transfers, including loans from the World Bank and the International Monetary Fund. Still the fact remains that the sharply reduced gap in the American balance of payments is chiefly attributable to higher production abroad with a consequent increase of goods shipped to this country, and also to tighter controls abroad to restrict imports from the USA. Thus while total American exports of goods and services fell to $16.8 billion in 1948 from $19.7 billion in 1947, our imports rose to $10.5 billion from $8.5 billion.

On Europe's side, world exports of goods and services last year were still $5.6 billion below the value of its imports though the deficit in Europe's balance of international payments was reduced by $2 billion. ECA assistance was largely responsible for the rise in European exports and the revival of European shipping. Most startling aspect of this improvement was the part played by Britain which accounts for three-fourths of the reduction in Europe's overall adverse balance last year.

Almost every country participating



in the Marshall Plan was able to chalk up notable progress. Britain was particularly successful in checking inflationary pressures and providing a budgetary surplus though her dollar problem persists. In Italy, people have renewed confidence in the lira which has remained stable for the past twelve months, and private savings are growing as economic recovery continues. France has made a good start towards combating inflation by bringing Government outlays more nearly in balance with revenues. Elsewhere, too, there has been marked progress towards industrial recovery. The result, however, was increasing need for stepping up exports as output rose and domestic shortages dwindled. But export drives of late have run into difficulties.

Why European Trade Lags

Responsible for this development is not only the decline in prices and buyers' wariness in anticipation of further downward price developments. There are other, more fundamental reasons. One is that intra-European trade, normally highly important to every European country, is suffering greatly from a variety of restrictions, particularly monetary controls, import quotas and lack of proper adjustments of intra-European exchange relationships. As the fight for internal stability, the battle of production, succeeded, more and more emphasis was placed on protection against foreign competition, militating against free trade and growing markets whereas the actual need was more trade and bigger markets.

Another restrictive influence has been the western counter-blockade against Iron Curtain countries. Still another has been the trade vacuum created by Germany's defeat and her slow recovery as a market as well as a supplier. Additionally the need for lower prices and fewer restrictions to broaden home markets has nowhere been fully met though shortages in most countries have all but disappeared. The trouble is that production costs in Europe are frequently excessively high, worker efficiency and productivity relatively low, and wage structures rather rigid. High costs, in the face of declining USA prices, have also tended to shrink American markets for European goods, creating a serious problem in view of Europe's need for dollars.

To conquer some of the problems enumerated and to facilitate a freer flow of trade, there is increasing recognition of the need of currency readjustments as outlined in the last issue of the Magazine. In conjunction with it, or rather preceding it, according to a growing body of opinion, should be removal of import quotas so that a more normal export-import pattern could emerge. Neither will be simple, since each has its drawbacks.

Easing Import Restrictions

Countries with normally large import surpluses fear that removal of import quotas would quickly aggravate their balance of payments problem, with resultant strain on their financial resources. This is particularly true when it comes to dropping quotas on American goods, what with the dollar shortage and reluctance or inability to use ECA funds for anything but essential imports. Moreover, European industries will be loath to agree readily to abandonment of quota protection.

When it comes to currency adjustments, it is difficult to make the various countries see eye to eye on new exchange relationships though unrealistically valued currencies are doubtless at the root of much of Europe's trade troubles. Yet some solution along these lines is now actively sought and at least a partial solution may emerge in the months ahead.

Tightening restrictions by ECA countries on the flow of goods to Eastern Europe have done much to narrow East-West trade but that trade now seems destined for broadening. Should the end of the "cold war" be in sight, we may expect large scale resumption of such trade which would furnish a welcome outlet for increased Western European production. Even if the cold war continues, as it likely will, a lively \$3 billion annual trade should materialize within the next two years. For 1949-50 alone, ECA in a recent progress report estimates that Western Europe may export \$1.5 billion worth of goods to Eastern Europe, with imports set at \$1.68 billion. ECA is encouraging this trade, though only within the limits of national security, in view of its essentiality as an aid in helping solve Western Europe's trade difficulties.

Cold War Fails to Stop East-West Trade

It is a peculiar fact that trade is one of the few kinds of human activity which in spite of the recent acute phase of the cold war has continued to link the communist and non-communist worlds. Trade experts believe that final returns for 1948 will show that trade between Eastern and Western Europe will prove to have developed more rapidly over the past year than trade among Western European countries, stymied as it was by the restrictive factors discussed before.

True, much of this trade has developed within the framework of laboriously negotiated bilateral trade agreements with practically no stimulus from dollars or free foreign exchange, and is likely to continue along these lines. But Western Europe is interested in trade with the East for a simple reason: Eastern Europe is one of the areas where industrialized countries can dispose of their products in exchange for food and raw materials needed to keep their highly diversified economic systems alive. Today this is much more important for Britain, Western Germany,

France, Italy and other heavily populated areas than it was before the war. For barring revival of a flourishing East-West trade, Western Europe must earn the goods formerly bought in the East by exports to areas, such as the dollar area, where much of what Western Europe has to offer is not wanted or needed, and where competition now is getting increasingly severe. The machinery, tools and finished products Western Europe has to offer seem able to compete in price and quality only in markets that are debarred by lack of dollars, or for other reasons, from obtaining such items in the USA. Eastern Europe is one such area, hence its importance to Western European trade revival and stability.

Eastern Europe a Key Market

To the question: Where will Europe market its expanded production? Eastern Europe thus holds an important key though it remains to be seen to what extent political considerations conflict with future East-West trade expansion. As it is, economic pressure on both sides of the Iron Curtain work for such expansion. What is needed, apart from lessening political tension, is some improved mechanism for financing such trade since it cannot revive much further within the framework of ordinary bilateral deals.

This doesn't mean that in casting about for outlets for its mounting production, Western Europe looks exclusively to broadening intra-European trade and further expansion of East-West trading, important as these are. No less than before, Europe also looks to the Western Hemisphere, and to the USA—source of many badly needed products and much coveted dollars. It expects Latin America, Asia and Africa to provide large markets for machinery, supplies and equipment, and undoubtedly there will be severe competition between American and European firms for these markets on which Europe in turn depends for many of its raw materials. Above all, Europe will strain every effort to hold and widen the market for its goods in this country. And this will not be easy, since many European goods are no longer competitive in price and value.

This is due to two causes: (1) The downtrend of domestic prices in this country in the face of high and rigid production costs abroad; and (2) the over-valuation of most European exchange rates vis-a-vis the dollar. Point one is difficult to remedy for a variety of reasons. Point two offers the easiest way out, a course that is most likely to be attempted first.

The creeping devaluation of the French franc is a case in point; progressively the French Government is permitting the value of the free franc to decline in relation to the dollar. A cheaper franc of course means that the price of French exports will be lower, hence will stimulate exports.

The swift drop in raw material prices has greatly embarrassed the British, placing them at a serious disadvantage in world export markets since much of their raw material buying was done on long term bulk contracts negotiated when prices were near their peaks. As a result, British selling prices have been getting severely out of line, and their export drive in the USA has shown signs of bogging down. The pegged Sterling further tends to slow trade, makes British goods harder to sell. With its marketing situation in USA and Canada rapidly worsening, Britain is believed to have reached a point where its exchange hand is being forced, hence the mounting talk about sterling devaluation to make British goods more readily saleable.

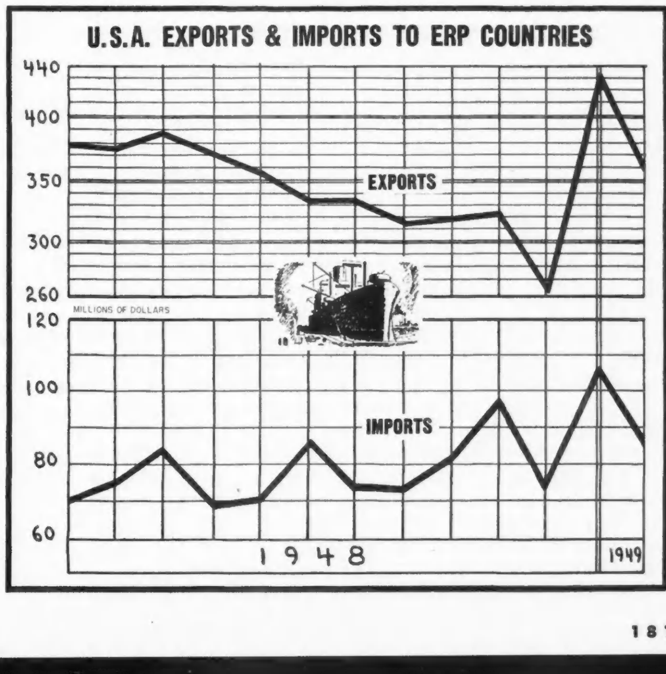
The British Dilemma

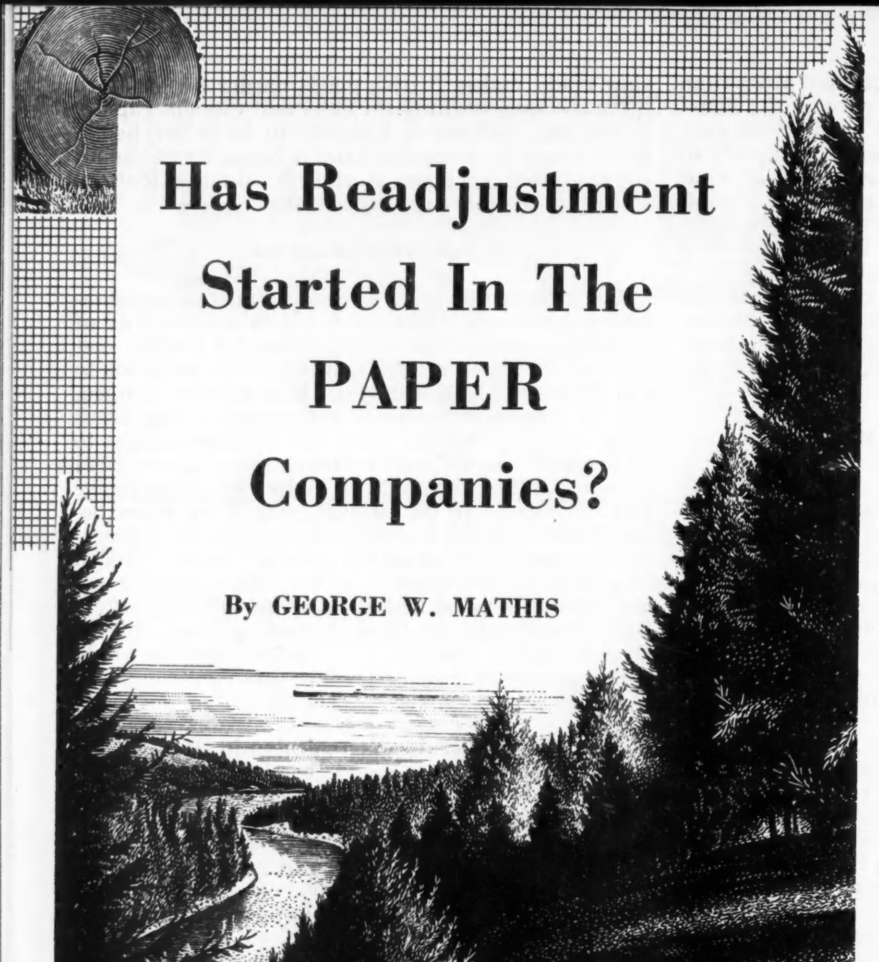
For Britain this poses a serious dilemma. Devaluation is a two-edged weapon for it raises the price of imports, an important consideration for Britain. Yet its chances of selling $720 million worth of goods to the USA and Canada during 1950, as now planned, may be determined more by action on exchange rates than by anything else. Last year, British exports to this country and Canada amounted to about $544 million but it is questionable whether even that figure can be reached in the current year. Thus many believe that it might be more to the point if the projected "long term drive for dollars" were preceded by a realistic devaluation of sterling. Not only are British goods being priced out of American markets but were it not for blocked sterling, even British trade with the dominions and crown colonies would suffer in view of wide preference for American goods and values.

Rise of Foreign Competition in USA

Broadly speaking, then, it would seem that pending currency adjustments, foreign competition in our domestic market will not be too severe though there will always be individual exceptions. The prospect of currency adjustment must, however, be taken seriously in direct relation to foreign difficulties in selling in our market. Additionally, efforts are under way to facilitate access of foreign goods to USA markets by lowering tariffs as evidenced by international tariff negotiations currently under way in France. Action along both these lines would definitely point to a bigger inflow of European goods to our shores.

Trade, of course, is a two-way street and if we want to export, we must import. (*Please turn to page* 204)





Has Readjustment Started In The PAPER Companies?

By GEORGE W. MATHIS

At the outset of our discussion it is just as well to answer the question raised in the above title in the affirmative. After quite a stretch of years during which paper manufacturers have had matters pretty much their own way in a protracted seller's market, the corner seems to have been definitely turned. Under the impact of easing demand and renewed competition, manufacturers of paper and paper products have entered a period when price concessions are likely to reduce volume and when sales expenses will rise. Resumption of discount allowances has already started, though some strongly entrenched concerns thus far have doggedly resisted the trend. Even newsprint, an item long in short supply, now appears in approximate balance with demand.

During the readjustment period now under way in this industry, it would be illogical to expect a continuation of the record and even spectacular earnings reported by the larger concerns in the last two years. If gradually lower prices should eventuate this year together with slackening sales, as may be entirely possible, the usual difficulties of adjusting overhead costs are likely to pare earnings of some concerns rather substantially. This may apply especially to fully integrated concerns with a rigid break-even point. On the other hand, paper manufacturers who purchase their pulp from outside sources may be more fortunate, because lower prices for this essential material would shave their operating costs.

Earnings of many paper manufacturers have been so lush in postwar, however, that prospective more normal levels could still prove eminently satisfactory. The industry, to be sure, is sensitive to changes in general business activities. following the curve of retail trade rather closely. Sales of wrapping paper, bags and containers naturally hinge on turnover of articles they enfold. But so many new uses have developed for paper products that the secular growth of the industry has been remarkable and should continue indefinitely. On the other hand, demand for newsprint and magazine paper varies according to shifts in advertising activities.

Confidence in the long term progress by well entrenched paper manufacturers is engendered by the extraordinary expansion in consumption on a per capita basis. The per capita use of 58 pounds at the turn of the century has grown almost steadily to a high of 357 pounds in 1948. While the population in this period has increased 175%, paper usage has expanded 625%. Also improved quality, relatively low prices and new applications have won for paper products many competitive advantages. In looking ahead, these factors are important.

Now that heavier competition has returned, one of the main problems facing the industry is an expansion of capacity amounting to about 16% since the end of the war. Annual theoretical capacity in the United States has now risen to about 23.5 million tons, 42% higher than in 1939. While consumption requirements are about 25 million tons, increasing supplies from Canada and the Scandinavian countries have now proved ample to meet the deficiency. As business conditions must remain highly active to absorb this extended capacity, even a moderate recession might create problems for some concerns. Indeed, reduced demand in the first two months of 1949 has caused a number of mills to curtail production by shortening the work week to five or even four days, thus lifting overhead expenses on idle facilities. Production of paper and paperboard fell off about 5% in the period cited and will probably be reflected by reduced earnings in the first quarter by concerns thus affected. For a few months to come, at least, reduced production undoubtedly will continue, though consumer demand should sufficiently sustain volume of favorably situated firms to enable satisfactory earnings by usual standards.

As a possible offset to reduced demand from abnormal heights and prospectively lower prices, many of the strongly entrenched concerns should benefit from elimination of numerous weak competitors; a number of marginal paper manufacturers are experiencing plenty of trouble. Several hundred of these high cost operators now in the field have managed

for several years to get by fairly well during a seller's market, though their margins in the last two years have been narrowing steadily. High break-even points and inefficient equipment have already caused a number of these to close down completely, and if prices start to slide, it is hard to see how some can remain in business.

Large Scale Postwar Modernization

In contrast to this situation, large sums have been spent by most of the outstanding paper manufacturers to modernize their plants and machinery, policies that appear certain to lower costs as the competitive period gains headway. The main advantage of postwar improvements of course is a reduction in unit costs that will prove beneficial if prices have to be shaved, as the outlook now indicates. As matters look, many of the stronger paper manufacturers should function rather well in the readjustment period, not alone because of expanded and modernized facilities but by recapturing many markets in which marginal concerns have made inroads under early postwar conditions.

Since the start of 1949, it has become apparent that supplies of wood pulp, the main constituent of all paper products, have become well balanced with demand. Domestic production of pulp last year reached an all-time high record of about 12.8 million tons. The postwar scarcity of pulp pushed prices up more than double the 1939 level, Scandinavian pulp often commanding a premium of over $30 a ton over domestic quotations, high as these were. Of late, these premiums have entirely vanished and pulp quotations have begun to slide on a progressive scale that is likely to continue for some time. As we have pointed out, this trend should benefit paper makers who buy pulp, but adversely affect pulp producers who use their own material or sell it to outsiders. Costs of pulp are a major factor in paper costs, accounting for about half of total expenses, with wages representing only about 15%.

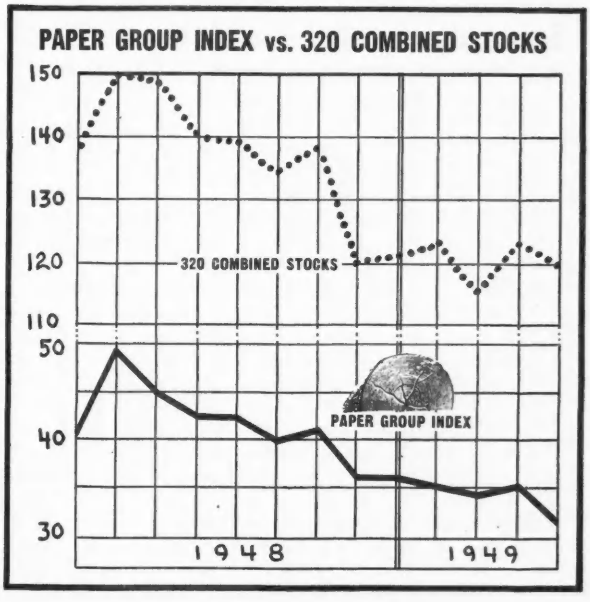
Outlook for Individual Companies

With the preceding background information in mind, our readers can probably get a better line on the outlook for the paper industry by a discussion of a few outstanding manufacturers representing various branches. Suppose we start with International Paper Company. 1948, the fiftieth anniversary of this largest paper manufacturer, was marked by record sales of $458.7 million and net earnings of $60.4 million before special reserves. After bookkeeping adjustments, final net per share amounted to $13.36, allocation of $12 million to provide for future inventory value changes and special depreciation charges reducing the figure from $16.73 per share. Better than average prices and expansion in volume permitted ample profit margins, as was also the cause in 1947. Total inventory reserves of $18 million at the year-end afford a good measure of protection against possible shrinkage in value of $68.5 million accumulated inventories consisting mainly of pulp and raw materials.

Prices for International Paper Company's numerous products, with the exception of newsprint and dissolving pulps, have been reduced in recent months and further mark-downs are likely. Thus 1949 volume will probably fail to match that of last year, and earnings will undoubtedly develop somewhat of a down-trend though to what extent is conjectural. Their former high level leaves plenty of room for a decline before endangering the stability of the $1 quarterly dividend paid in 1948, but the $1 per share special paid at the year-end might be less assured. Much will hinge on developments in the current year and whether the management utilizes its accumulated reserves to offset potential inventory losses.

The financial and physical status of this concern has shown immense improvement since the start of the war and during 1949, further capital improvements probably will involve more than $30 million, chiefly for the construction of a modern pulp mill in Mississippi to produce pulp from hardwood for the first time. Generally speaking, though sales and earnings will tend lower, the company's decidedly improved status and tremendous resources point to continued satisfactory operating and earnings results in the foreseeable future. International Paper's first quarter profits were surprisingly good, $3.82 per share comparing with $3.68 a year earlier, but the management cautions that lower sales and prices are likely to create less favorable comparisons in near term periods.

West Virginia Pulp & Paper Company, a leading producer of white paper as well as of kraft, enjoys an enviable long term record and has impressively built up its fences to meet heavy competition from now on. Without long term borrowing or increase in preferred stock, this concern has spent in postwar about $30 million, mostly to install cost-saving machinery. Although more than 400,000 acres of timber land are owned, most of this is held in reserve, the bulk of pulp requirements being purchased from outside sources. These policies tend to hold down inventory losses if pulp prices weaken substantially in the near or medium term. For the second year, net earnings of West Virginia Pulp & Paper in 1948 topped $11 per share and the company has made an excellent start in the current year. Production in the first quarter totaled 169,635 tons compared with 166,079 tons in the comparable 1948 period, while net earnings rose to $2.74 per share compared with $2.56. Orders for magazine paper are flowing in steadily, the management reports, and thus far no lowering of prices has been deemed advisable but the outlook points to price concessions before long as



increased competition is looming up and pipelines have been amply filled. The good showing in the first quarter, accordingly, may not be a reliable yardstick of full year accomplishments. Dividends of $4.00 distributed in 1948, though, should be fully equalled if not exceeded in 1949.

Union Bag & Paper

Union Bag & Paper Company, world's largest producer of paper bags, faces a possible 30% reduction in earnings in the current year, according to estimates by the management. Notwithstanding, this should produce earnings of around $6 per share, an interesting contrast to an average of well under $2 per share earned over a long period prior to 1946. In the first three months of 1949, sales were 15% lower than in the corresponding period a year earlier. Net earnings dipped even more, amounting to $1.50 per share compared with $2.46 in the first 1948 quarter. Union Bag & Paper has cut multiwall bag prices by 5% and also lowered prices of corrugated cartons, but has held the line on other items thus far. The products of this well entrenched concern are so rapidly expendable, that it is quite possible that incoming orders will mount in the second half, should dealers become more confident about inventories. For this reason it is not safe to assume that the $4 per share dividends distributed last year may seem overliberal in relation to prospective earnings of $6. It is yet too early to appraise the situation accurately.

Though volume of St. Regis Paper Company advanced for the fifth consecutive year in 1948, shareholders in this concern must expect sales to develop a reverse trend in 1949. This large integrated producer of paper products reported sales of $162 million last year, a rise of 13% over 1947, but mounting costs held the earnings gain to about five cents per share for a total of $2.71. A tapering off of excessive postwar demand combined with increasing caution among customers to accumulate inventories was reflected by first quarter sales of $34.9 million compared with $40.3 million in the first three months of 1948, and $39.2 million in the December quarter. The management expects little improvement in the second quarter but anticipates better results during the second half year.

St. Regis Paper Company has completed inventory adjustments and is confident that no serious letdown in business will hamper medium term operations. The company's policies to pay out only 15 cents a share quarterly suggest ample stability and extra payments may be possible in the final quarters of the year.

Scott Paper Company

Scott Paper Company enjoys a firmly entrenched position as the leading producer of toilet tissues, paper towels and wax paper. Dividends paid regularly since 1915 attest to unusually efficient management. Volume of $73.5 million in 1948 showed a rise of 28%, while net income per share rose to an all-time high of $4.15. Further sales gains were achieved in the recent first quarter compared with a year earlier, and many of the company's products are still being allocated to dealers. Net earnings of $1.29 per share in the first quarter compared with 76 cents in the related 1948 period. Scott Paper's inventories will be so clearly utilized on current firm business orders, that declining prices of pulp constitute a relatively small threat to profit margins. To the contrary, replacement of pulp at lower prices should benefit earnings this year, because its strong competitive position fortifies it against the need of significant reductions in the sale price of its products. That dividends are entirely secure is evidenced by a price of 53 for Scott Paper shares, (*Please turn to page* 206)

Statistical Summary of Leading Paper Companies

	Net Current Assets† ($ million)	Inventories‡ ($ million)	Net Per Share 1948	Net Per Share 1947	1st Quarter Net 1949	1st Quarter Net 1948	Div. 1948	Div. Yield	Price-Earnings Ratio‡	Recent Price	Price Range 1948-49
Champion Paper & Fibre	$20.6	$12.1	$7.34	$4.96	$5.02 c	n.a.	$2.00	9.5%	2.9	$21	27 -23¾
Container Corporation of America	20.6	8.6	10.12	10.09	1.89	$2.03	4.50	13.2	3.4	34	42½-33⅛
Crown Zellerbach	45.4	34.9	6.81	5.22	n.a.	......	2.00	8.4	3.5	24	34⅝-23
Dixie Cup	8.5	7.2	6.70	5.87	6.48 b	5.07 b	1.00	3.6	4.2	28	41 -24¼
Gaylord Container	11.5	6.3	3.43	4.08	n.a.	......	1.50	8.3	5.2	18	26½-16⅛
Gair, Robert	5.4	4.7	2.20	2.83	.54	.73	.70	11.2	2.7	6	10¼- 6⅛
Great Northern Paper	13.9	10.0	4.63	4.56	n.a.	......	2.80	8.0	7.6	35	44½-36
Hinde & Dauch	8.1	4.1	2.79 a	2.74 a	.60 a	.81 a	1.50 a	10.0	5.4	15 a	18½-14 a
International Paper	85.9	68.5	13.36	11.65	3.82	3.68	5.00	10.8	2.8	46	64⅜-42⅜
Kimberly Clark	12.5	17.1	5.02	4.29	n.a.	......	1.65	9.2	3.6	18	24 -18¾
Lily Tulip	7.3	6.2	7.31	5.06	.60	.88	1.62	4.1	5.3	39	47 -33
Mead Corp.	15.5	16.2	6.36	7.33	1.17	1.43	2.00	13.2	2.4	15	23½-14¾
National Container	3.1	5.8	2.28	4.13	n.a.	......	1.20	17.1	3.1	7	13½- 7
Rayonier, Inc.	15.5	8.3	9.09	7.30	1.71	2.16	1.25	5.4	2.6	23	36 -22½
St. Regis Paper	43.1	30.6	2.71	2.66	.39	.83	.80	11.4	2.6	7	13¾- 7⅝
Scott Paper	11.9	10.2	4.15	3.02	1.29	.76	2.27	4.3	12.8	53	53½-39⅜
Sutherland Paper	6.4	5.5	6.02	6.87	1.13	1.52	2.50	7.6	5.5	33	44½-31
Union Bag & Paper	15.3	5.4	9.17	7.93	1.50	2.46	4.00	16.0	2.7	25	39⅞-24⅞
United Board & Carton	2.5	3.3	4.95	5.11	def.56	.75	1.25	25.0	1.0	5	15¼- 5
West Virginia Pulp & Paper	24.0	23.6	11.33	11.40	2.74	2.56	4.00	10.8	3.3	37	51⅝-36

a—Adjusted.
b—12 months ended March 31.
c—6 months ended December 31.
†—Latest available.
‡—Based on 1948 earnings.
n.a.—Not available.

Photo by Devaney

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What's Ahead for

MERCHANDISING SHARES....

By PHILLIP DOBBS

As a barometer of economic conditions, the operations of large concerns distributing consumer goods command special interest. Capacity and willingness of the public to purchase at retail is the basic fundamental on which the entire economy rests, in the final analysis providing the chief means of appraising potentials not only for the big retailers but for manufacturers as well. Hence under current unsettled conditions, the status and outlook of the leading department stores, chains and mail order firms is a particularly timely subject.

Large scale merchandising in recent years has made great forward strides. Hard lessons learned in former lean times have sharpened the wits of highly trained store buyers and of research departments scouring the world for desirable goods while constantly keeping attuned to shifts in consumer preferences. What and when to buy, together with trigger fast changes in pricing policies, promotional skill and the turnover of immense inventories have created a major test of managerial efficiency. Fortunately for investors in many of these leading retail organizations, marked efficiency lends confidence in their operations, though the record is by no means uniform.

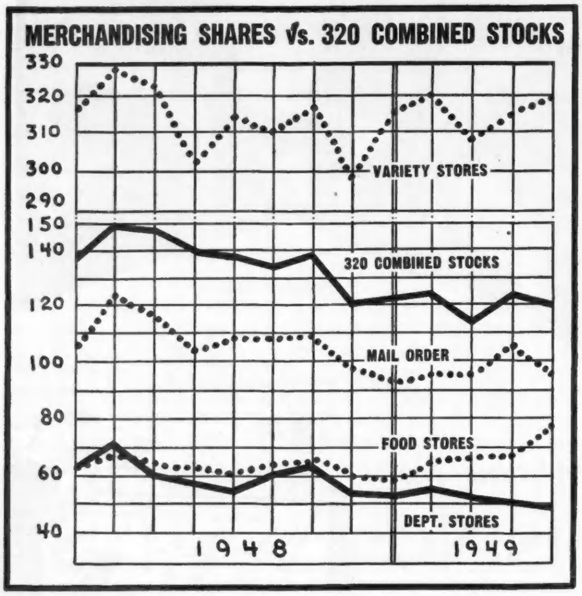
1948 volume of all retail stores rose to a record peak of $130 million, 10% above 1947, but while the gain was impressive it failed to equal the advance of 17% in 1947 and 32% in 1946. Characteristic of last year was a rise of about 19% in sales of durables and of only 6% in soft goods, the latter mainly accounted for by higher prices, while increased availability of hard goods swelled volume. Though increased sales enabled earnings generally to advance for the year, a progressive hesitation by customers to buy goods in the fall months indicated that pressing demands at last were being fully met and that the universal scramble for postwar goods had passed its peak. During the December holidays, volume naturally recovered, but store executives recognized the existence of a readjustment period.

Prompt steps to control inventory problems and to restrict order placements have characterized first quarter store policies. The "wait and see" attitude of customers expecting lower prices has spread even more significantly among purchasing departments, for prices all along the line have softened and probably will continue to do so. Some months undoubtedly will elapse before a measure of stability is restored. Meanwhile, margins on somewhat reduced dollar volume are likely to be pared and only in exceptional cases will 1949 earnings be closely comparable to those of last year. While the second half year must be awaited for fuller clarification of the outlook, dividends of many leading distributors last year were so conservative as to suggest stability if the recession in earnings ahead proves to be only moderate.

Trend of Department Store Sales

Some evidence of what might be expected in the current year is provided by total department store sales to a recent date. Comparisons of the recent quarter are distorted because Easter fell on different dates. According to Federal Reserve System statistics, sales in the January 1 to April 23 period declined by an average of 3.6% in 12 leading cities, Boston alone showing a gain of 1%, Cleveland holding even, and decline of from 1% to 6% occurring in other centers, all compared with the same interval a year earlier. In the final week immediately following Easter, however, the downtrend gained momentum, extending to about 10% on the average for all these centers, with Richmond, Va. reporting a drop of 16% and Dallas, Texas, showing an 18% decline.

In evaluating potentials for 1949 retail business, it should be realized that not only will lower prices reduce volume, but a tendency by consumers to spend a smaller proportion of income than in the last few years may also be a factor. Personal savings have developed a substantial uptrend in recent



months, despite the fact that personal incomes in April were at an annual rate about $4 billion below a year earlier. Over a long period of years it has been established that somewhat more than half of disposable income is spent in retail stores of one kind or another or with mail houses, but in 1947 the proportion rose to 59.9% and last year soared to around 65%. This obvious abnormality appears certain to be corrected this year and hereafter, now that the post-war spending stampede has subsided. Hence the combined influence of somewhat reduced national income, a smaller percentage spent and lower prices hardly encourage expectations that retail sales will not contract in the current year. Even if margins can be kept on an even keel, operating profits will be lower.

Encouraging Factors

The outlook picture, however, also holds encouraging factors. Especially favorable is the general reduction in inventories at the end of the last business year, a development probably carried further in recent months. In relation to record sales in many cases last year, the ratio of inventories showed marked uniformity, as our appended table reveals. The same applies to the percentage of total current assets represented by goods on hand. Since policies of the buying departments in the first quarter have been unusually cautious, it can be taken for granted that current inventory positions are more satisfactory than ever.

Strengthening this supposition is the fact that unwanted or overpriced merchandise has been largely eliminated. More importantly, year-end inventory values of many department stores were adjusted to LIFO methods for the first time last year as a result of a long awaited Treasury Department ruling. This permitted ultra-conservative valuations that will cushion the impact of receding prices and help to stabilize earnings in a deflationary period. Furthermore, the new LIFO ruling may be retroactive to 1942, in which event some of the larger stores may be able to claim tax refunds amounting to several million dollars.

Another constructive factor is the competitive advantage won by many leading retail merchants through complete modernization of their premises and the establishment of up-to-date branches. With the broadest assortment of goods in history at their command and the lure of appealing presentation, these improved facilities seem certain to swell overall sales and earnings when the present readjustment period has terminated and more stable conditions exist.

First Quarter Results Will Give Clues

As the fiscal year of most large retailers ends at the end of January, their first quarter results cannot yet be examined in detail, thus somewhat hampering efforts to judge of 1949 dividend potentials. Though Gimbel Bros. earned $4.16 per share in its last fiscal year and paid dividends of $2, or less than half the available amount, the recent quarterly rate was reduced to 25 cents per share from 50 cents. While the management's explanation that large capital needs for improvements prompted the step is undoubtedly valid, it is possible that less favorable operations were also a factor. R. H. Macy's regular quarterly rate of 50 cents a share is probably secure. But whether Macy will find it advisable to declare an extra similar to the 50 cents a share distributed last fall cannot yet be predicted.

Department Store Chains

Current problems and potentials for several of the large holding companies operating major department store subsidiaries are of course very like those we have been discussing in connection with individual units. Strong finances and an excellent record lend merit to the shares of May Department Stores, now reasonably priced at 39, yielding 7.7%. Aggregate sales of the nine large units and 15 smaller ones operated by this experienced concern have been above $350 million. Allied Stores has the largest chain, with 78 locations throughout the United States; last year's sales totalled $419 million and net profits rose to $7.14 a share from $6.20 a share a year before. Dividends at the annual rate of $3 per share should be secure.

J. C. Penney's policies of operating junior department stores in virtually every state, 1603 units in all, have paid off extremely well. By featuring low to medium priced goods, the hazards of deflationary forces are somewhat reduced while volume is relatively stabilized. Inventories of $134 million seem large dollarwise but represent only 15.2% of the $885 million sales. 1948 earnings of $5.80 per share amply covered dividends of $2.50, improving prospects that the quarterly rate of 50 cents will hold and that an extra may be declared later. Earnings in the current year, though, will probably be somewhat lower than in the previous period.

The outlook for progress in the mail order field differs from that of department store operators in that the clientele is largely represented by rural or working class customers. The sharp drop in farm commodity prices points to lower farm income in 1949, despite Government aid, though cash resources of around $21 billion owned by this group should sustain ample purchasing power. But the prospects of layoffs and strikes in the numerous industrial centers where the mail order concerns usually operate may tend to reduce (*Please turn to page* 203)

Pertinent Statistics on Merchandising Stocks

	Net Current Assets† ($ mil.)	Inventories† ($ mil.)	% of Inventories to Current Assets	1948* Sales ($ mil.)	% of Inventories to Sales	Net Per Share 1948	Net Per Share 1947	Div. 1948	Div. Yield	Recent Price	Price-Earnings Ratio‡
Alden's	$15.4	$9.0	36.0%	$87.8	10.3%	$3.68 bc	$2.52 b	$1.50	10.7%	$14	3.8
Allied Stores	85.2	52.8	43.6	392.2	13.5	7.14 b	6.20 b	3.00	11.6	26	4.3
Arnold Constable	3.4	1.4	25.0	23.2	6.0	2.84 b	2.74 b	1.25	8.9	14	4.9
Associated Dry Goods	26.5	15.5	39.5	142.3	10.9	3.88 b	2.97 b	1.60	12.3	13	4.0
Best & Co.	10.3	5.1	32.0	39.1	13.0	4.76 b	4.36 b	2.00	8.0	25	5.3
City Stores	31.0	16.1	32.0	168.1	10.2	3.19 b	2.77 b	1.20	7.1	17	5.3
Consolidated Retail Stores	5.0	3.3	41.0	35.6	9.3	3.73	3.23	1.30	11.8	11	3.0
Federated Department Stores	74.6	32.3	30.6	346.5	9.3	5.33 b	4.18 b	2.00	7.7	26	4.9
Gimbel Bros.	59.6	31.1	35.5	307.3	10.2	4.16 b	2.80 b	2.00	15.4	13	3.1
Grant, W. T.	29.3	19.7	46.0	233.9	8.5	3.67 b	3.41 b	1.50	7.1	21	5.7
Green, H. L.	18.1	13.9	59.8	101.6	13.8	4.97 b	4.76 b	2.50	6.6	38	7.6
Interstate Department Stores	11.4	9.5	64.0	66.9	14.2	5.15 b	4.62 b	2.00	10.5	19	3.7
Kresge, S. S.	75.7	35.1	33.3	289.1	12.1	3.95	3.79	2.50	6.6	38	9.6
Kress, S. H.	34.9	23.7	51.5	165.4	14.4	5.46	5.39	4.25	8.5	50	9.2
Lane Bryant	6.3	5.2	43.0	36.1	14.4	2.06	2.53	1.00	10.0	10	4.8
Lerner Stores	20.5	12.5	41.0	126.9	9.9	4.83	3.69	1.50	6.5	23	4.7
Macy, R. H.	46.4	20.9	29.4	315.0	6.6	4.39	3.70	2.50	8.3	30	6.8
Marshall Field	36.9	31.3	48.0	224.5	14.0	5.45	5.10	2.00	10.0	20	3.7
May Dept. Stores	74.8	36.2	33.0	358.0	10.1	5.50 Eb	5.96	3.00	7.7	39	7.1
McCrory Stores	16.9	11.4	48.0	97.6	11.7	4.63	5.34	2.80	9.0	31	6.7
McLellan Stores	9.7	8.9	60.0	55.5	16.0	3.60 b	3.62 b	2.00	10.0	20	5.6
Melville Shoe	13.1	7.4	34.3	83.6	8.9	2.64	2.45	1.80	7.8	23	8.7
Mercantile Stores	22.9	18.0	53.0	119.1	15.1	3.44 b	3.47 b	1.00	7.7	13	3.8
Montgomery Ward	412.9	259.3	50.0	1,211.9	21.5	10.28 b	8.86 b	3.00	5.7	53	5.2
Murphy, G. C.	25.9	17.1	44.3	137.6	12.4	4.76	4.25	2.25	5.5	41	8.6
National Department Stores	23.2	9.6	32.5	90.1	10.6	3.32 b	4.12 b	1.50	10.7	14	4.2
Neisner Bros.	4.4	6.8	71.0	57.6	11.8	2.71	3.09	1.00	7.7	13	4.8
Newberry, J. J.	32.8	21.9	54.0	134.8	16.2	4.55	4.30	2.00	6.5	31	6.8
Penney, J. C.	125.1	134.9	58.5	885.2	15.2	5.80	4.29	2.50	5.4	46	7.9
Sears Roebuck	375.7	349.1	58.0	2,296.0	15.2	5.80 b	4.56 b	2.25	6.1	37	6.4
Spiegel	34.1	16.7	25.0	134.6	12.5	2.48	1.12	Nil	......	8	3.2
Woolworth	118.6	84.7	50.0	623.9	13.6	4.48	4.32	2.50	5.6	45	10.0

*—Or fiscal 1949.
‡—Based on 1948 earnings.
†—Latest indicated.
E—Estimated.

b—Fiscal years ending in 1949 and 1948 respectively.
c—13 months.
e—13 weeks ended January 29.

Investment Audit of U.S. STEEL

By
STANLEY DEVLIN

At is a curious coincidence that United States Steel Corporation, maligned as a symbol of predatory "big business" and "special privilege," owes its origin to a kindly impulse of a benevolent old gentleman. Had not Andrew Carnegie, patron of a nationwide system of free libraries, decided at the turn of the century to retire and devote his declining years to philanthropy, it is quite possible "Big Steel" might not have come into existence. Now, almost half a hundred years later, the management likes to think it is preserving Mr. Carnegie's high ideals in producing essential raw materials with which to satisfy mankind's material wants. Throughout its vast organization this giant corporation endeavors to uphold its modern legend: "The industrial family that serves the nation."

That U. S. Steel is big no one can deny. It accounts for virtually a third of domestic steel production. The management resents suggestions that, by reason of its predominant position, it gains or expects special privileges. Intimations that size is a handicap on efficiency or on ingenuity also are disavowed. Leadership derived from pre-eminence in industry demands responsibilities, and the corporation's present management is fully cognizant of its obligations not only to its stockholders and employees, but to the country as a whole. While policies must be conservative, they cannot be indifferent to modern social trends.
to bring the price within reach of a larger number of investors is an indication of readiness to change with the times. There is reason to think that those
Decision after prolonged deliberation to split the corporation's common stock at a three-for-one ratio now guiding the corporation's destinies would like to see its shares more widely held. Toward this end officers and directors have endeavored in recent years to build for the stock a degree of investment standing despite the fact that even the best companies in such a volatile industry as steel find earnings and dividend stability difficult to achieve. Now that the split has become effective and the shares have been brought to a more popular price level, management may be expected to strive even more earnestly to strengthen its investment qualities.

Only on rare occasions since the company's formation in February, 1901, has the stock been available in the open market at a price as low as the middle 20's. For a brief period in 1915 and on several occasions in the depression years 1932-35, the price fell below 30, but for the greater part of the corporation's history, "Big Steel" has been regarded as suitable only for the well-to-do investor. It will be interesting to observe effects of this initial split in the 48-year-old company's stock.

Interesting Market Potentials

The economic environment in which the capital adjustment is taking place also is fraught with interesting potentialities. It is being effected in a period of record high corporate earnings and at a time when the general business trend patently is downward. How then will the public react to impending developments? Will the attraction of a more popular price level counteract skepticism over prospects for smaller earnings? These are interesting questions which time will answer in due course.

Without endeavoring to foretell future earnings or price trends of the shares, it will be the purpose of this study to explore a few highlights of the company's expansion and review recent financial accomplishments. Comments on progress are supported by accompanying statistics dealing with income account and balance sheet data. From a study of recent records on market behavior, it may be observed that the stock has been exceptionally modestly appraised in recent years in relation to reported earnings and dividend distributions. It seems evident that investors, by their extreme caution, have been endeavoring to anticipate the setback in business now materializing.

Largest and Strongest

U. S. Steel not only is the largest company in its field, but is one of the strongest financially and physically. The company is composed of thirty-three subsidiaries engaged in mining ore and transporting it to steel mills as well as in producing other raw materials and fabricating them into many types of finished steel. The integrated operation that has been the key to success in American industry, so far as it applies to steel, originally was conceived by Judge Gary upon his association with the business in the late 1890's. As a Chicago lawyer, he participated in formation the Federal Steel Company and became its president. To eliminate unnecessary costs of raw materials, he proposed acquisition of ore and coal mines, limestone quarries and transportation facilities to provide low-cost materials for blast furnaces and rolling mills. This idea led to the merger of Federal with Mr. Carnegie's company in 1901.

At the time of its formation U. S. Steel had a rated capacity of 10.6 million tons of steel ingots and castings, or approximately 44 per cent of the country's total capacity of 24.1 million tons. Since that time the corporation has increased its output to almost 31.3 million tons, or slightly less than one-third of the country's rated capacity of about 96 million tons. Demand for steel has accelerated so rapidly since the beginning of the second European war and initiation of rearmament activities in this country that the country's ingot capacity has expanded about 15 per cent since 1940, while population was growing only about 11 per cent.

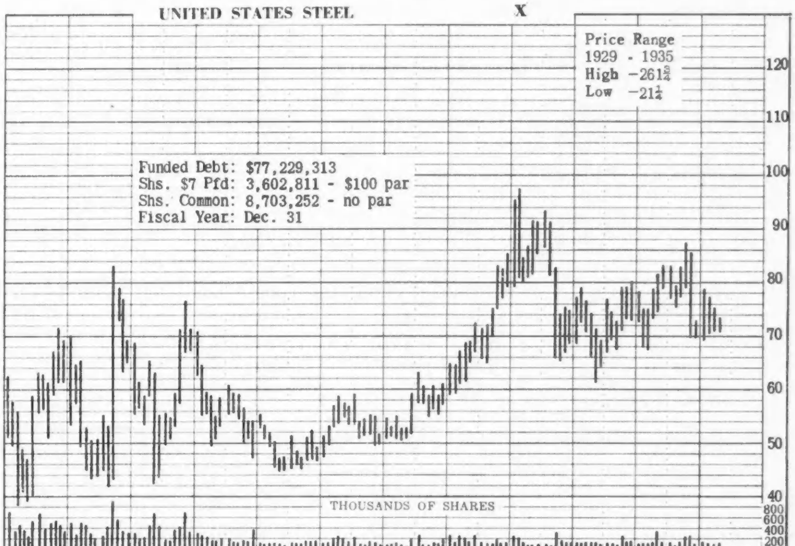
Postwar Expansion

"Big Steel" has kept pace with its competitors in expanding to meet growing domestic requirements and in installation of modern equipment. The company's post-war program is expected to cost $930 million, of which $693 million already has been spent. As part of this project, new plants have been acquired and constructed in the Far West to extend the company's sphere of influence to the Pacific Coast. A new cold reduction sheet and tin plate mill was built at the Pittsburg Works of its Columbia Steel subsidiary near San Francisco, and this plant is regarded as the most efficient of its kind in the country. A similar mill is being built by Columbia at Los Angeles in strengthening U. S. Steel's competitive position on the Pacific Coast.

That the corporation has taken cognizance of its social responsibilities in recent years in its labor relations and in its pricing policies is evidenced by the fact that "Big Steel" set the pace in wage contract negotiations immediately after the war just as it had done in first granting recognition to the CIO Steel Workers Union. At the same time, profit margins have been held at relatively low ratios to sales volume notwithstanding urgent demand and "black

Comparative Balance Sheet Items

ASSETS	December 31, 1940	1948 (000 omitted)	Change
Cash	$ 215,048	$ 225,352	+$ 10,304
Marketable Securities	36	213,843	+ 213,807
Receivables, Net	110,565	195,991	+ 85,426
Inventories	308,985	339,175	+ 30,190
TOTAL CURRENT ASSETS	634,634	974,361	+ 339,727
Plant and Equipment, Net	1,110,172	1,300,817	+ 190,645
Other Assets	109,780	259,794	+ 150,014
TOTAL ASSETS	$1,854,586	$2,534,972	+$680,386
LIABILITIES			
Accounts Payable and Payrolls	$ 72,595	$ 265,677	+$193,082
Accrued Taxes	62,011	207,480	+ 145,469
Other Current Liabilities	28,698	31,699	+ 3,001
TOTAL CURRENT LIABILITIES	163,304	504,856	+ 341,552
Reserves	86,990	125,502	+ 38,512
Preferred Stock	360,281	360,281	
Common Stock	652,744	870,352	+ 217,608
Capital Surplus	38,463		— 38,463
Profit and Loss Surplus	305,498	602,454	+ 296,956
TOTAL LIABILITIES	$1,854,586	$2,534,972	+$680,386
WORKING CAPITAL	$ 471,330	$ 469,505	—$ 1,825
CURRENT RATIO	3.9	1.9	— 2.0



1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	
d 3.78	1.83	8.85	10.45	5.29	4.30	4.08	3.77	7.28	11.70	11.99		EARN.
-	-	3.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	5.00		DIV.
	432.0	471.3	495.8	515.1	519.3	552.3	603.3	631.5	548.6	469.5	Wkg Cap $ Mil	

Long Term Operating and Earnings Record

	Gross Sales and Revenues	Depreciation, Depletion & Obsolesc.	Operating Income	Operating Margin —%—	Net Income ($ million)	Net Profit Margin —%—	Net Per Share	Dividends Per Share	Price Range
	———$ million———								
1948	$2,473.1	$148.8	$373.8	15.2%	$129.6	5.2%	$12.00	$5.00	87⅝-67⅜
1947	2,122.8	114.5	217.6	10.2	127.1	6.0	11.71	5.00	80 -61⅝
1946	1,496.1	71.4	93.5	6.3	88.6	5.9	7.28	4.00	97⅜-65⅛
1945	1,747.3	121.4	90.9	5.2	58.0	3.3	3.77	4.00	85¾-58⅝
1944	2,082.2	137.8	153.4	7.3	60.8	2.9	4.09	4.00	63⅞-50¼
1943	1,972.3	128.8	182.3	9.3	62.6	3.2	4.30	4.00	59⅜-47⅜
1942	1,862.9	123.7	259.9	14.0	71.2	3.8	5.29	4.00	55¾-44¼
1941	1,620.5	95.8	262.2	16.2	116.2	7.2	10.45	4.00	70¾-47
1940	1,076.5	71.1	137.7	12.8	102.2	9.5	8.85	4.00	76½-42
1939	904.2	61.2	59.9	6.6	41.1	4.6	1.83	4.00	82¾-41⅝
10 Year Average, 1939-48	$1,735.8	$107.4	$183.1	10.3%	$85.7	5.2%	$6.96	$4.20	97⅜-41⅝
4 Year Average, 1939-42	$1,366.0	$ 87.9	$179.9	12.4%	$82.7	6.3%	$6.60	$4.00	82¾-41⅝

market" quotations far in excess of mill prices. Despite widespread criticism of huge war profits, U. S. Steel averaged far less on its wartime sales than in normal peacetime years.

Margin Trend in Recent Years

Net income declined from 7.2% of sales in 1941 to 3.8% in 1942, held at 3.2% in 1943, 2.9% in 1944 and 3.3% in 1945. With the end of the war margins rose to 5.9% in 1946, to 6.0% in 1947 and dropped back to 5.2% last year. This fact helps explain why net profit last year, although the largest since 1929, was only slightly in excess of 1918 income on sales only slightly more than half 1948 volume.

The company boasts of the fact that steel prices have increased less than many raw materials. From 1940 to 1948, according to the Bureau of Labor Statistics, iron and steel prices advanced 72 per cent, against 115 per cent in wholesale prices for all commodities and 179 per cent for farm products. In the same period, employee average hourly earnings increased 95 per cent. The company's costs of supplies rose sharply, too. Fuel oil jumped 130 per cent and coke rose 141 per cent.

Even though margins have been well below experience of a generation ago, when 10 to 20 per cent of sales was not uncommon—a peak of 30.1 per cent was reached in 1916—U. S. Steel has strengthened its financial position in recent years and has expanded plant facilities to meet the threat of more intensive competition with return of more nearly normal conditions. Adoption of f.o.b. mill pricing policies by the industry last summer, as a consequence of a Supreme Court decision, points to possibility of major market adjustments unless Congress acts to upset Federal Trade Commission regulations. The corporation appears well situated to hold its own in competing for business under these changed conditions.

Adjusted for 3-for-1 Split-up

	Per Share Earnings	Per Share Dividends	Price Range
1948	$4.00	$1.67	29⅛-22½
1947	3.90	1.67	26¾-20½
1946	2.49	1.33	32½-21¾
1945	1.26	1.33	28½-19½
1944	1.36	1.33	21¼-16¾
1943	1.43	1.33	19¾-15¾
1942	1.76	1.33	18½-14¾
1941	3.48	1.33	23½-15¾
1940	2.95	1.33	25½-14
1939	.61	1.33	27½-13⅞
10 Year Average, 1939-48	$2.32	$1.40	32½-13⅞
4 Year Average, 1939-42	$2.20	$1.33	27½-13⅞

Advantageous Plant Location

In an industry so keenly competitive as steel, maintenance of volume production and close control over operating costs tend to govern profit margins. In these respects, U. S. Steel through dominance of markets and widespread plant dispersal enjoys distinctive advantages. Along with Bethlehem Steel, which has particularly well located plants on the Atlantic Seaboard, "Big Steel" probably is best able to get its share of available orders under at-the-mill price policies now in vogue. The corporation is well situated with modern production facilities in the highly competitive Pittsburgh area. Efficient plants are located also in the Chicago territory, while on the Pacific Coast the company is regarded as one of the strongest factors.

Plant efficiency is becoming increasingly important as producers prepare for gradual shrinkage in consumer demand. Small marginal companies soon may encounter difficulty in meeting expenses as prices begin to decline. Proximity to ore and fuel sources, along with adequate transportation facilities, gives U. S. Steel an advantage in controlling costs. The corporation owns its own high grade iron ore properties in Minnesota and Michigan together with vast bituminous coal mines in western Pennsylvania, West Virginia and Kentucky. Coal also is mined in Alabama for the corporation's Birmingham subsidiary, Tennessee, Coal, Iron and Railroad Company. The corporation obtains limestone and dolomite from other subsidiaries and gains distinct cost advantages on such materials. Another subsidiary, Universal Atlas Cement Company, is one of the principal producers of (*Please turn to page* 204)

— NEWPORT INDUSTRIES — COLUMBIA BROADCASTING SYSTEM — SUNRAY OIL

By J. C. CLIFFORD

General uncertainties in the economy, while accounting for the deflation of numerous share prices, provide an inadequate explanation of price behavior in some individual situations. For this reason we have chosen for discussion three concerns whose current status and outlook, to judge from the mail in our personal service department, is the subject of a good deal of concerned interest among investors. An analysis of their prospects and problems should therefore be of value to many of our readers.

Newport Industries, Inc.

Shares of this important producer of distilled wood rosins and turpentine products, recently selling at 11, have taken quite a tumble from their 1946 high of 45. During the first two postwar years, heavy demand for these products, together with pine oil, from manufacturers of paints, papers, linoleum, plastics, soaps and other industries, stimulated relatively high prices and enabled the company to achieve excellent earnings. Supply, however, began to catch up with demand with the advent of 1948 and by the end of last year became quite overabundant. Prices progressively fell as the months went by, to the detriment of profit margins because of rigid costs and reduced dollar sales. Customer reluctance to accumulate inventories in the first 1949 quarter intensified these problems, with the result that the company was barely able to keep in the black, and dividends were allowed to lapse.

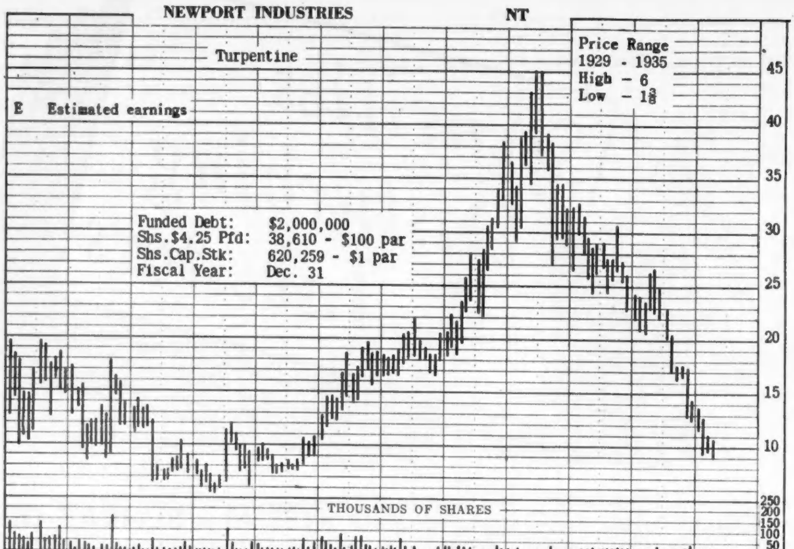
Increasing competition last year led Newport Industries to lower the prices for its manufactured products by an average of about 13%, despite a rise of some 8% in wage rates. Cost of supplies and freight also advanced. The appended table shows clearly how pretax margins, pinched from two directions, narrowed from 21.5% in the 1948 March quarter to only 3% in the 1949 related period. A corresponding drop of $1.1 million in sales indicates that company's break-even point has almost been reached at a level around $2.7 million. That this point may be breached, temporarily at least, in the second quarter, is indicated by the volatility of prices for gum rosins. Recent quotations around $6 per 100 pounds F.O.B. Savannah compare with an average of $7.82 for last December and $9.01 a year earlier. Turpentine prices, though, appear to have firmed slightly from the December average of 36.8 cents per gallon to 40 cents of late. From now on, Government price supports will probably preclude further declines, for the CCC has increased the loan supports to 45 cents a gallon on turpentine and $6.52 per 100 pounds on N grade rosin.

On the brighter side of the picture is the fact that export demand which normally accounts for about 35% of total sales, may recover from a 32% slump last year. Also the abnormal withdrawal of domestic customers from first quarter markets may be followed by an equally significant come-back as a result of seasonal demand trends and returning confidence. The confidence of the management in the outlook is expressed by plans to spend $900,000 on capital improvements in the current year. The company's financial position is strong, as a sale of $2 million 3⅛% serial notes last September provided ample working capital. A rather large scale experiment in producing ramie, a valuable fiber, has been hampered by hurricanes and the difficulty of

Newport Industries

(Quarterly Income Statistics)

	1949 March	1948 March	June	Sept.	Dec.
Net Sales (million)	$2.7	$3.8	$3.7	$3.9	$3.4
Net Before Taxes (million)	$ .08	$ .8	$ .5	$ .4	$ .4
Margin Before Taxes	3.0%	21.5%	14.4%	9.4%	10.4%
Net Income (million)	$ .05	$ .5	$ .3	$ .2	$ .2
Net Profit Margin	1.9%	13.4%	8.9%	5.8%	6.8%
Net Per Share	$ .02	$ .74	$ .74	$ .30	$ .31



1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	
d .08	.66	.50	1.14	.99	1.08	.84	1.38	3.41	3.90	E 1.82		EARN.
-	-	.30	.75	.50	.80	.80	.80	1.60	2.00	1.50		DIV.
	2.2	2.2	2.3	2.3	2.3	2.2	2.7	6.2	2.6	4.8	Wkg Cap $ Mil	

attracting domestic customers, but in time the merit of this material should win recognition. Newport Industries also has considerable acreage in Lousiana with encouraging oil potentials. Various oil companies operating under lease have already brought in five wells, creating more than $50,000 annual revenues for Newport. Finally, the company is gradually shifting its operations to produce an increasing amount of byproducts from its basic materials, and this will tend to ease the burden of contending with volatile prices characteristic of rosin and turpentine.

Sharp First Quarter Earnings Drop

While the sharp drop in earnings from 74 cents a share in the first three months of 1948 to two cents in the recent quarter, together with the passing of dividends, has naturally resulted in pressure against the stock, there are pretty sound reasons to surmise that results later this year may look better. Indeed, it is quite possible that dividend resumption may come sooner than many may expect. Newport Industries shares are inherently speculative at all times, but at their recent price of 11 they are not without attraction for appreciation potentials within a reasonable period. The current price thus presents a fair opportunity for averaging by present holders of the stock.

Columbia Broadcasting System

Reduction of CBS dividends to 35 cents quarterly at the start of 1949, compared with 50 cents paid formerly, provided a hint that net earnings this year were likely to diminish. From their January high of 24⅜, quotations for the Class A and B shares of this prominent broadcaster have dipped to a recent level around 19. In confirmation of earlier pessimistic surmises, earnings for the first quarter were reported as 50 cents a share, approximately half the amount earned in the same 1948 span and compared with $1.79 per share in the final quarter last year. William S. Paley, chairman of CBS has frankly admitted that operations in the current year are unlikely to produce profits equal to those of 1948, but just what they may be was not indicated.

Reasons Why

Columbia Broadcasting System is passing through a phase in which it is attempting to win a commanding position in the radio field at considerable expense, and also is forced to spend large sums in the development of its television activities. Furthermore, its wholly owned subsidiary, Columbia Records, Inc., is temporarily losing money on its operations. In combination, these three circumstances naturally tend to cut profits for the time being. The big question is how long and to what extent will they continue to exert their influence.

As for radio, the management claimed undisputed leadership in the industry at the end of 1948, as the culmination of three years of increasingly aggressive policies. In order to obtain for CBS the most effective program schedule, not alone for radio but for video as well, the company outbid its rivals for the services of such well known stars as Jack Benny, Amos and Andy, Bing Crosby, Red Skelton and Bergen. On the January 1, 1949, balance sheet, these talent contracts, scripts, etc. are valued at a net figure of about $3.2 million, the annual amortization of which will necessarily cut into future earnings. As a result of these top programs, though, CBS has gained an edge over other networks, and has already found them advantageous in some instances through simultaneous telecasting. The management evidently is convinced that its enlarged investments in talent will pay off through their dual use, pending a period when television will increasingly compete with radio, though both may enjoy consistent growth.

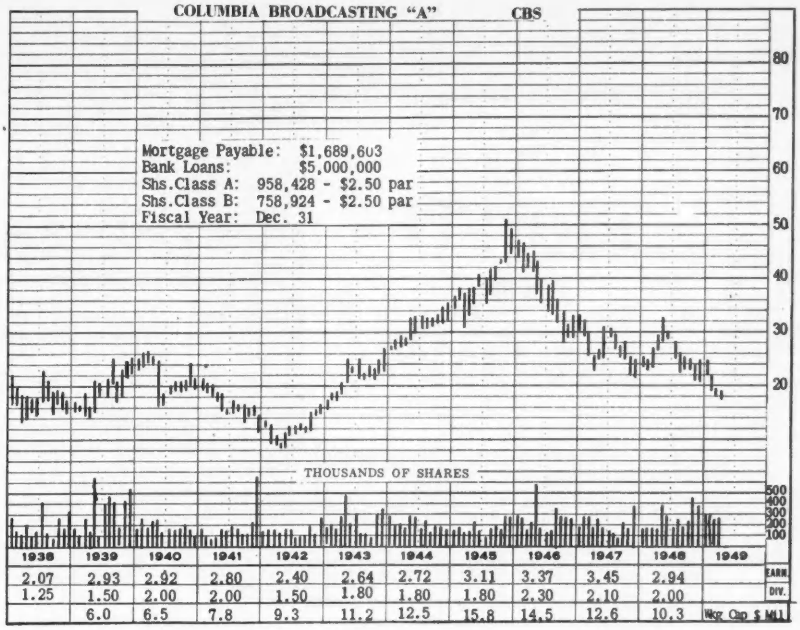
In a single year, the CBS television network has expanded from one station in New York to 30 outlets across the country, and progress will be sub-

Columbia Broadcasting System

13 weeks ended

	1949 April 2	1948 April 3	1948 July 3	1948 Oct. 2	1949 Jan. 1
Net Revenues (million)	$18.8	$18.7	$16.1	$15.8	$19.5
Net Before Taxes (million)	$ 1.6	$ 2.52	$ 1.2	$ 1.2	$ 3.2
Margin Before Taxes	8.3%	13.5%	7.5%	7.5%	16.6%
Net Income (million)	$ .8	$ 1.5	$ .7	$ .7	$ 2.0
Net Profit Margin	4.5%	8.3%	4.6%	4.6%	10.2%
Net Per Share	$ .50	$ .90	$ .43	$ .42	$ 1.19

stantial during 1949. 13 of the sponsored programs on CBS Television at the year-end were "packaged" as indicated above, implying a satisfactory degree of advertisers' acceptance. Due to the heavy expenses involved in the development of video, however, operations in this field will probably continue to constitute a drag on earnings. It is interesting to note that net revenues of CBS for the March quarter were a bit higher than a year earlier, \$18.8 million versus \$18.7 million, but that abnormally high expenses for television cut net income virtually in half. Aside from multiplying its TV outlets and increasing its operating expenses in this division, CBS also spent more than \$1 million in the reconstruction of its New York studios. As matters look, a year or more may elapse before television be-



Sunray Oil

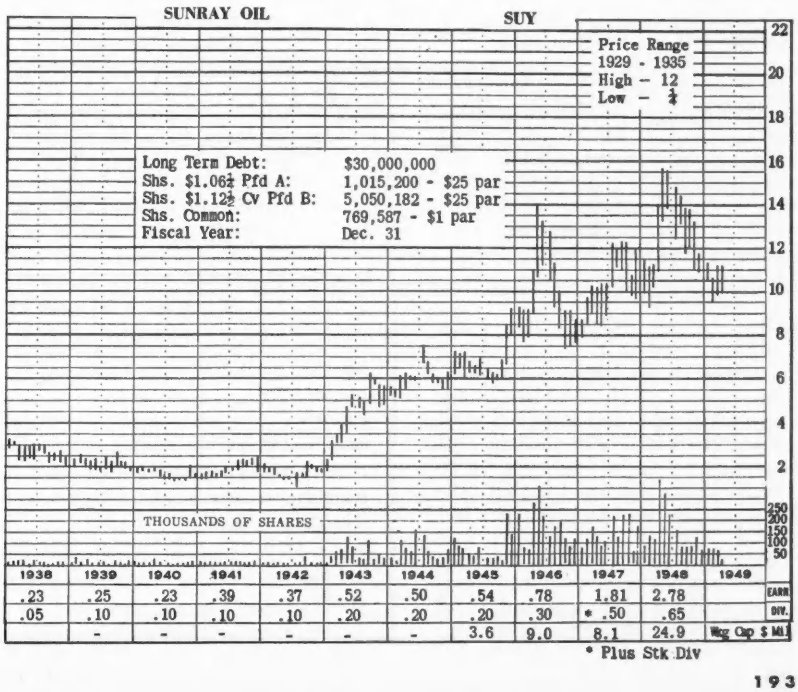
(Quarterly Income Statistics)

	1949 March	1948 March	1948 June	1948 Sept.	1948 Dec.
Gross Income (million)	\$14.4	\$14.5	\$14.8	\$17.8	\$18.2
Net Before Taxes (million)	\$ 3.6	\$ 5.3	\$ 5.2	\$ 5.1	\$ 4.4
Margin Before Taxes	25.0%	37.0%	35.0%	28.3%	24.0%
Net Income (million)	\$ 2.8	\$ 4.1	\$ 4.1	\$ 3.9	\$ 3.6
Net Profit Margin	19.0%	28.5%	27.5%	21.8%	19.6%
Net Per Share	\$ .45	\$ .78	\$ .73	\$ .67	\$ .61

comes really profitable, but ultimate success seems well assured.

Difficulties experienced by the recording subsidiary stemmed curiously enough, from a major improvement introduced by the company last year. In 1948 Columbia Records placed on the market its new Long Playing Microgroove record providing up to 50 minutes of playing time. This innovation filled a long standing void, enabling for the first time the playing of entire symphonies and musical shows without interruptions. Though 2 million LP records were sold in the first six months, because most radio-phonograph manufacturers were quick to produce equipment capable of playing at either the normal or newly reduced speed, one large concern refused to do so. The rumor spread that all old phonograph models were becoming obsolete, temporarily substantially disrupting the market for all records and adversely affecting the earnings of Columbia Records. This situation undoubtedly will straighten itself out in due course, but meanwhile new competition in slow-speed records has appeared.

While the long term outlook for CBS is good and the company is in strong shape financially and competitively, the quarterly dividend of 35 cents per share paid in the first three months compared with \$2 distributed throughout 1948 in 50c quarterly disbursements. Although the net of 50 cents per share re- (*Please turn to page* 208)



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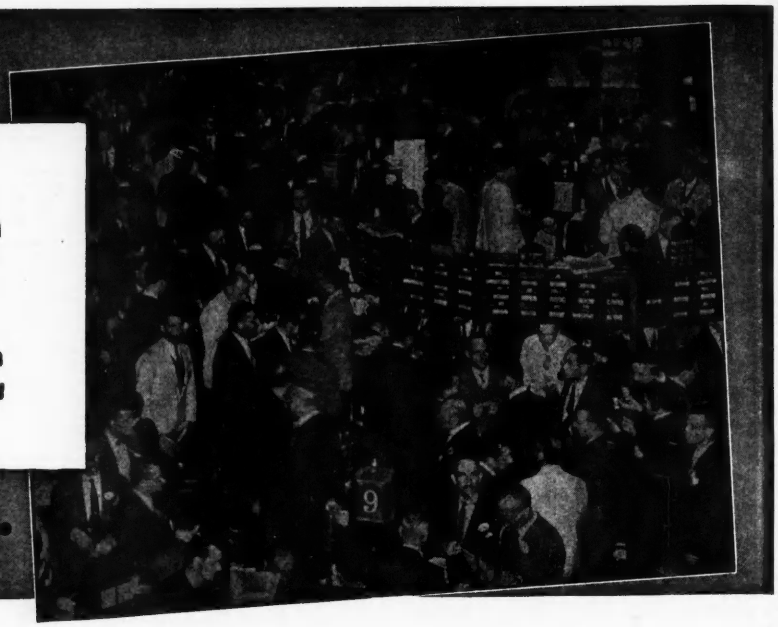


Summer Rise

If you take the low for the two-month period May-June and the high for the two-month period July-August, there has been a summer rise in the stock market every year, without any exception, in the 52-year history of the Dow industrial average. Is it easy, then, to make money in the market in the good old summer time? You guessed it. The answer is no. You cannot foresee whether such a rise will be small, moderate or large; and you cannot determine the May-June low or the July-August high except by hindsight look at a chart. Summer rises have been largest in dynamic bull-market years or in bear-market years when they immediately followed a large decline. Putting two and two together, this column opines that the 1949 summer rise is likely to be on the tepid side, if it does not take off from a materially lower level than any recorded in the back and filling of the last ten weeks or so.

Bad

Leather stocks are such obviously poor holdings that we have long kind of taken it for granted that none of our readers owns any. But somebody must be hanging on to them, for the shares are still outstanding. We hope that you are not among them. If you are by any chance, sell and forget it. Leather has for many years been an industry uninviting for investment; and is steadily becoming more so. The soles of a major portion of all shoes now manufactured are made of Neolite (Goodyear) or other synthetics which outwear leather. The latter has a future, of course, for it will not disappear from the market. But in terms of profits and dividends that future looks pretty dismal.

Evidence

We have pointed out here before that much school building must be done over an extended period, due to curtailment of normal school expansion during the war and to the high birthrate of recent years. We have said that this prospect is highly favorable for American Seating. A survey made by the National Education Association now confirms our premise statistically by showing that the average overload in all schools is 31%. American Seating recently sold up to 29½, a new high since 1946. It is still moderately priced on probable annual earning power and dividends of the next several years.

Movies

Assuming the business recession does not run into a major depression, earnings of leading motion picture companies probably have put the worst behind on a quarterly basis. The stocks are up materially from their lows; but since they are to some extent back "in vogue" now, they should be among the best performers in any periods of intermediate market recoveries. There is perhaps more percentage in Loew's, yielding over 8% on a \$1.50 dividend which is currently being covered, although not by much margin, than in Paramount or Twentieth Century-Fox. Television will continue to cast some shadow over movie stocks, but more effectively at higher market levels than at present.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
American Home Products	Mar. 31 quar.	\$ .73	\$ .64
Chrysler Corp.	Mar. 31 quar.	2.15	1.71
Coca-Cola	Mar. 31 quar.	1.45	1.39
Cleveland Graphite Bronze	Mar. 31 quar.	1.60	.77
Federal Mining & Smelting	Mar. 31 quar.	4.13	1.66
Houdaille-Hershey	Mar. 31 quar.	.79	.28
Household Finance	Mar. 31 quar.	1.21	.89
Packard Motor	Mar. 31 quar.	.26	.09
Richfield Oil	Mar. 31 quar.	1.26	.96
Sterling Drug	Mar. 31 quar.	1.11	1.07

Air Lines

There is no change in the opinion, previously expressed in this column, that the air transport industry has seen its worst; but that does not mean that the outlook this year is rosy. So-so is the word. The stocks should perform a little better than the market; but modest earning potentials for the foreseeable future, and the absence of any visible prospect of dividends, must put a ceiling on them not so very far from present market levels.

Dow

Dow Chemical has raised its cash dividend from $1. to $1.60 a year, but still yields only 3.4% at present price of about 47. As substantial holdings are owned by employees, the management will not be unmindful of the yield factor. So, with needs for expansion easing, the chances are that it will either boost the rate again or repeat last year's 2½% stock dividend. Assuming the latter, the combined return at current price would be about 5.8%. That is quite good for a "growth" chemical; but there is no need to reach for the stock. No doubt it can be bought at concessions in general market reactions. It is not believed that the death of Dr. Willard Dow has changed the picture. It has been a very long time since Dow was in any sense a one-man company. The executives since elevated are Dow-trained men of ability and long experience.

Bearish

In April 10,587 freight cars were delivered, but new orders totalled only 30 cars. The backlog on May 1 had been reduced to 62,569 cars; but of this only 35,323 was backlog of "outside" car builders, the rest being "on order" in shops of the railroads. Thus, the freight-car backlog of the rail equipment industry, as that term is generally understood, equals only about four months of production at the April delivery rate. Some plants are already closing for the duration of the lean period. The outlook for locomotive business is equally poor; what there is will be overwhelmingly in diesels; and General Motors, rather than any of the older locomotive manufacturers, has come to be the leading maker of these. Makers of signalling equipment and air brakes have the best outlook — or perhaps we should say the least poor outlook. Compared with prewar, rail equipment stocks on an average are about one-third more depressed than the general industrial list. They are down some 46% from their 1946 bull-market high, but stand roughly 33% above their 1938 and 1942 bear-market lows. Although a very large part of this bear-market in rail equipment stocks is already water over the dam, it is unlikely that the final lows have been seen.

Earnings

First quarter earnings of manufacturing industries appear to have been moderately above year-ago levels, on an average, but about 17% under the peak level of the fourth quarter of 1948. A part of the latter shrinkage, although not a great one, is seasonal. Among the major line the poorest showing were made by the building and textiles groups. Total profits of 13 companies in the former group were down 44.1% from the first quarter of last year and 70.5% from the fourth quarter of last year. Earnings of 28 companies in textiles or apparel fell 51.9% from year-ago levels, and 48.5% from the prior quarter's result. For a long time all comments made on these two groups in this column have been on the cautionary side. Second quarter results for the building group probably will be better, but little changed for textiles. However, in volume, prices and profits, the cyclical adjustment in the textile field is more advanced than that in building.

Acting Well

In recent trading more individual stocks have sagged to new lows for 1949 than have shown independent strength, but the divergences continue to emphasize the highly selective character of this market—a market which, in terms of the averages, has been without a recognizable major trend for over two years. This shows that the Averages have come to be a poor market gauge. Stocks performing relatively well for some days prior to and up to this writing include Associated Dry Goods, Borden, Corn Products, Lorillard, National Department Stores, Freeport Sulphur, Lambert, National Biscuit, Sunshine Biscuit, National Dairy Products, Public Service of Colorado, Standard Oil of Calif., and West Penn Electric.

In Brief

Merck is making the new "wonder drug" indicated to be a specific for rhumatoid arthritis... It is expected that oil-company earnings this year will be around 10% to 30% under those of 1948, varying greatly from company to company ... Deflation of non-ferrous metals prices has proceeded so rapidly that it implies fairly early stabilization . . . Earnings of such top shoe manufacturers as Brown, Endicott Johnson and International Shoe will be moderately lower this year, but dividends seem secure... The previous comment seems to apply also to the Big Four of the Rubber industry: Firestone, Goodyear, Goodrich and U. S. Rubber, whose dividends were widely covered last year.

Groups

Stock groups making the best relative showing in recent market action include beer brewers, glass containers, drugs, finance companies, baking and milling, food store chains, oils, motion pictures, natural gas, and both electric operating utilities and utility holding companies. There has been very little change in this list in some time. The same is so of the list of groups behaving poorly. It includes auto accessories, building stocks other than cement, copper, meat packers, lead and zinc, machinery, textiles, appliances.

DECLINES SHOWN IN RECENT EARNINGS REPORT

		1949	1948
Amerada Petroleum	Mar. 31 quar.	$3.14	$4.10
Burlington Mills	April 2 quar.	1.02	2.11
Certain-teed Products	Mar. 31 quar.	.50	.95
Cutler-Hammer	Mar. 31 quar.	.91	1.02
Driver-Harris	Mar. 31 quar.	.76	1.24
Emerson Electric Mfg.	Mar. 31 quar.	.47	.91
Heyden Chemical	Mar. 31 quar.	.38	.92
National Gypsum	Mar. 31 quar.	.67	.84
Standard Oil of California	Mar. 31 quar.	2.74	2.85
Tide Water Associated Oil	Mar. 31 quar.	1.38	1.71

First Quarter Reports Indicate for the Rest of 1949

(*Continued from page* 174)

apparel have been experiencing numerous difficulties during several quarters past and, to judge from recent earnings reports, are not yet "out of the woods." Volume has been severely reduced, with high break-even points also paring profits. While many concerns in this field do not report quarterly results, a group selected by the National City Bank experienced a drop of 51.9% in earnings from last year's first quarter. Goodall-Sanford, Inc., producers of both textiles and apparel, has reported earnings of 89 cents per share for nine months compared to$2.05 for the same period last year. The quarterly dividend of 37½ cents per share, though, has been continued regularly even if not fully earned. Chances are good that earnings of this specialist in summer suitings will improve in the second quarter with the approach of warm weather and the possibility that the stores hereafter may accumulate inventories more confidently. Besides this, stabilization of prices in the textile industry may occur more promptly than in other areas, if only because the process has been under way for a relatively longer period. First signs of price recovery in textiles traditionally brings buyers at every level into the market with a rush, and large scale consumption of textiles cannot be deferred very long under current conditions.

The as yet unsatisfied demand for automobiles and replacement parts, together with the increased availability of materials, continues to sustain operations of leading concerns in the automotive industry on a high plateau. 10 manufacturers of automobiles and trucks reported earnings in the first quarter larger by 41.9% than as of March, 1948. General Motors reported the largest sales of any quarter in its long history during the period ended March 31, with net of $3.04 per share also at an all-time peak. Volume of $1.28 billion was at an impressive annual rate of $5.1 billion, indicating how effectively the company's large expansion program has enabled output to rise. First quarter sales of 560,542 cars and trucks made by domestic and Canadian plants, while very sizable in amount, accounted for a smaller proportion of total volume than in pre-war, substantial sales of diesel engines, locomotives, Frigidaires and replacement parts gaining in importance.

Additional quarterly reports of oil companies tend to bear out predictions made in our last issue that earnings of most units in this segment of the economy will be somewhat smaller this year than in 1948. Net for the first three months reported by Skelly Oil Company declined to $6.56 per share, against a range of $7.55 to as high as $9 per share for all 1948 periods. Phillips Petroleum fared no better with first quarter net of $2.10 per share well below that of any quarter last year. This industry clearly is well on the way to adjust output and prices in more desirable relation to demand, and abnormally wide margins characteristic of last year seem bound to narrow. This, however, in no manner implies that oil company earnings will shrink disconcertingly. Rather, while they will be reduced, they should level off in an entirely satisfactory manner by previous standards. Many of the leading oil companies plan to spend further huge sums for exploration purposes in anticipation of well sustained demand for an indefinite period.

In conclusion of our discussion of first quarter reports, it seems appropriate to touch on dividend distribution as well as earnings. The Magazine "Exchange" published by the New York Stock Exchange has compiled some interesting statistics on this subject. It seems that a total of 661 listed stocks in the first quarter paid dividends equal to or larger than the 1948 rate. Disbursements in the aggregate were 10% more than a year earlier, led by concerns in the automotive industry with a gain of 42.8% and followed by the steel group with an advance of 36.4%. 17 oil concerns lifted their dividends. 11 department stores paid larger dividends while 11 others cut their payments. Textile dividends were lower by 4.1%, and transportation services' dividends were off 25.5% for the most significant decline of any industry, while rubber industry dividends dipped 19.9%. As these diverse trends tie in rather closely with those of earnings we append the complete table for the benefit of our readers.

Varying Extent to Which Industries Have Completed Their Adjustment

(*Continued from page* 171)

ducers will profit by obtaining a larger share of available business. While recent and current earnings may be slim, ultimate restoration is indicated. The question: Has adjustment in non-ferrous metals run its course? cannot be answered with conviction at this stage since much depends on future demand trends, but pricewise it seems far advanced. Demand revival will furnish a test of the new price levels.

The buyer's strike in copper is showing some signs of letting up. Consumers recently bought the metal in sizeable quantities for the first time in two months at the 18c price; this has broken the stalemate in existence for some time.

In textiles, similarly, adjustment has made considerable progress. Already on the skids for over a year, the industry is getting set for more cutbacks this summer but nothing as severe as in the past. Cotton textile production, off 20% so far this year, will undergo further curtailment in the next 60 days and total output for the year may well fall to the lowest level since 1939 unless the market takes a marked turn for the better in the third and fourth quarters. However, mill inventories which were not dangerously large in recent periods of price shake-downs, have been well pared down with most mills keeping output tightly in line with sales. The effect of this policy should be felt pricewise some time in the third quarter when prices may well harden somewhat under the impact of delayed demand for quick delivery. Meanwhile the next 60 days are expected to continue at a relatively slow pace and further small price declines are possible.

The rayon industry was relatively late in feeling the impact of adjustment needs but when it came, it was fairly drastic, necessitating sharp production cutbacks. Price reductions so far have been relatively small. Meanwhile yarn and fabric customers are still placing orders on a reduced basis. Generally there are some indications that basic conditions in the textile industry are

improving but it will be some time before there will be any substantial increase in yarn production.

Another field where adjustment pangs have been severe, is the electrical appliance industry, but manufacturers, already curtailing heavily, apparently haven't hit bottom yet. Price cuts so far helped prevent too drastic deterioration of volume but high manufacturing costs on present lines prohibit further sizeable cuts. The industry, in preparing to meet consumer resistance, has not only stepped up promotion efforts substantially but, this being not enough, is getting ready to change designs to evolve stock model types which can be sold at lower prices and still maintain reasonable profits. Fact is that a post-Easter buying rush in major appliances expected to inject life into a sluggish early-summer market, has not materialized. Though appliance sales in April were reported 15% to 20% above March, the gain was considered inadequate. Retailers view price reductions so far merely as "token" cuts which often had the effect of strengthening the waiting attitude of consumers in anticipation of still lower prices. Adjustment clearly hasn't run its course, nor will it be simple, for many concerns, because of high break-even points. Hence emphasis on cost reduction and cheaper models. The industry is agreed that the biggest hurdle to surmount, next to prices, is the fact that it must again learn how to sell.

The machinery industry is in the midst of a rather sharp adjustment, reflecting the contraction in demand for capital goods equipment. March output was 11% below a year ago and the decline for the first quarter was 8%, but not all segments are being affected equally. A further 10% overall decline seems a moderate estimate, and it may have spreading effects.

Machine tool output it down to about 50% of capacity. The upturn in new orders beginning last November and extending through March has about run its course and there is little prospect of early improvement. Hence tool builders are increasingly turning to new lines, or expanding former sidelines, to stabilize sales; except for defense business, domestic demand for machine tools is rapidly drying up.

The heavy machinery field, still quite busy, is facing an early change. Demand for textile machinery has been large, but order cancellations have been mounting. Engines, turbines and pumps are also entering a period of declining output. Generally, while heavy machinery industries still enjoy substantial order backlogs enabling them to maintain operations at a high level, new orders are declining, bringing nearer the day when adjustment to smaller volume must be made. This is particularly true of transportation equipment, especially freight cars, for which new orders have dropped almost to the vanishing point.

On the other hand the motion picture industry, long in the throes of adjustment, has made marked progress during the past two years in cutting overhead, hence the somewhat better feeling toward movie shares; their group index was one of the few showing marked improvement in recent months despite continued "intangible uneasiness" over the threat of television. Similarly, the liquor industry has made strides in adjusting itself to reduced demand conditions but the threat of future price wars remains.

It is but natural that one of the primary adjustment aims is the working off of excessive inventories and this process, as in non-ferrous metals for instance, has greatly intensified price problems and price impacts. Just how far-reaching this tendency has become is evidenced by the decline in business loans since December of well over $1 billion. Inventories in the aggregate are still large, though not unduly so in relation to current sales. But the book value of manufacturers' stocks declined during March by about $300 million, the first sizeable decrease of the postwar period. Non-durable goods industries accounted for about two-thirds of the total drop, the durable goods group for the remainder. Significantly while most of the latter group reported decreases, there was no change for the electrical machinery group (appliances) and a slight increase for the non-ferrous metal and furniture groups. Later figures will probably reveal an intensification of this trend. The attached table showing inventory positions of various companies at the end of the first quarter shows frequently higher inventories, in relation to sales as well on an absolute basis, than a year ago, indicative of the fact that inventories are mounting in many fields as sales volume recedes. It is a trend that needs watching.

At the rate at which readjustment is now proceeding, correction should not take too long, and existing factors of strength should prevent it from becoming too severe. Just as we are having piecemeal adjustment, so we shall have piecemeal stabilization; and just as the market has been reflecting rotating adjustment, it will also reflect rotating stabilization. The behavior of stock groups points in this direction.

Market Entering Decisive Phase

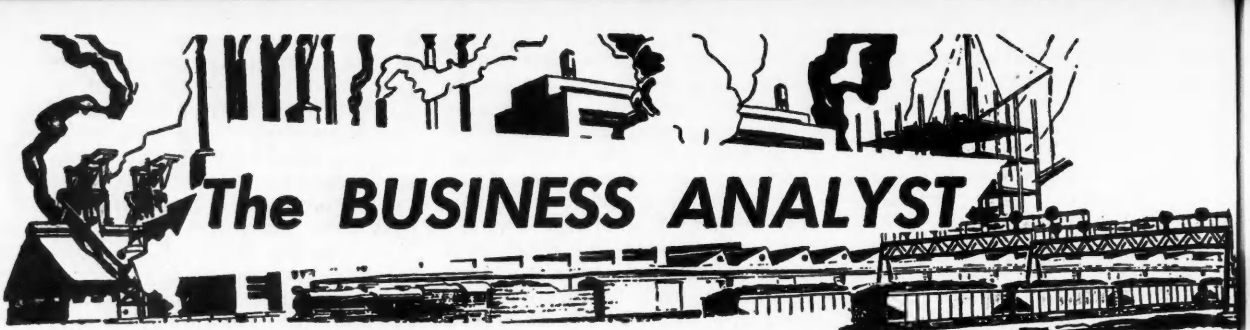
(*Continued from page* 168)

be very wide, although in the majority of cases stocks in any particular line move in the same direction and without extreme divergencies. To cite an example, the table shows a decline of 30.8% for the automobile group for the period covered, or about twice that of the general index. This was due to sharp declines in stocks of a number of the secondary and marginal companies, while General Motors and Chrysler performed pretty much in line with the general market.

Again, the six radio stocks making up this index—all of them now also television stocks—fell an average of 34%. But individual results ranged all the way from a fall of about 84% for Farnsworth to a decline of less than 1% for Zenith. Other declines in this group were 8% for Radio Corp., 22% each for Magnavox and Sparks-Withington and 32% for Philco. Admiral Corp., not included in the index, had a slight net rise for the period reviewed. The point emphasized is that study of group tendencies is but a starting point in study of individual stocks — for it is individual stocks, rather than groups, that you buy, hold or sell.

Our general policy remains conservative and selective. It does not call for any selling now where holdings are sound. On the other hand, we would defer employment of present cash reserves, awaiting later buying opportunities.

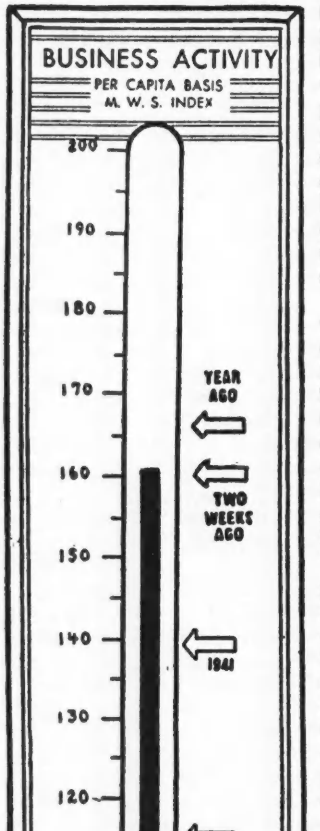
—Monday, May 16.



What's Ahead for Business?

By E. K. A.

While business here and there is up a little, mostly seasonally, basic indicators continue to point downward. It is obvious that the end of the business downturn is not yet "just around the corner." While the adjustment process in many lines is considerably advanced and virtually completed in some, it still has to go quite some distance in others and in some few, such as steel and autos, it has barely started. Not until the cycle is complete, or nearly so, can a turning point be expected.



It now looks that Spring will pass without any significant change in the business trend though seasonal factors cannot be said to have fully played out. But whatever their potentials, where they exist, they are likely to be overshadowed by recessive tendencies elsewhere. Still business is far from "folding up," as some of our gloomiest prophets would have it. While highly spotty as to the degree of downtrend experienced, the fact remains that overall economic activity is still good by most standards. But there is a widespread tendency to play cautious, to avoid risks, an attitude that may well turn out as a factor of strength in the present situation.

Meanwhile there is no denying that while the business decline took its time in starting off, it also takes time in developing. One reason is, apart from the countereffect of still existing strong spots, that price drops in raw materials are slow in percolating through to retail levels. Even once they do, no one knows whether resultant reductions in the price of manufactured goods will be sufficient to restimulate consumer demand to the extent of bringing about a turn.

This uncertainty, with resultant reluctance to resume inventory buying, is probably responsible for the disappointing spring revival, or the near absence of it so far. It has been holding things back since no one wants to place orders only to find later that the decision has been premature, that the price downtrend is not yet completed. Thus business and industry continue to "live" on their inventories; eventually, once stocks are worked down, re-orders will be necessary and this should instil new vigor—but the time apparently is not yet. For the moment, business appears becalmed in many directions, extremely cautious yet not overly pessimistic for the longer pull, and with good justification.

There is truth in the recent comment of the Federal Reserve Bank of New York that the fundamental features of the economy remain promising and that there is no logical reason why a progressive disappearance of the artificial wartime stimulants to demand should be cause for undue alarm. The Bank sees the returning buyers' market being followed by a renewal of "that high rate of growth in productivity upon which our progress and standard of living ultimately depends—a rate which fell off sharply during the eight years of sellers' markets."

What Will Labor Do?

This long range view is encouraging and well founded but the nearby problems inherent in the current acceleration of the business decline are naturally foremost in the minds of business despite the well marked absence of the sense of urgency which has characterized downward movements in the past. Nor are latest developments on the labor front apt to instil confidence in the shorter range outlook. No one knows whether, and to what extent, the "fourth round" showdown now in the making will upset the natural trend of things. Should labor insist on long-drawn out strikes—and foolhardy as this would seem from a labor standpoint, it cannot be ruled out—it could well magnify depressive influences since major strikes at this juncture will not tend to build up deferred demand as they did during the era of shortages; rather the effect would be a further shrinking of markets. Needless to say, this would not benefit labor, yet labor policy has frequently been astoundingly short-sighted and could be so again.

By the same token, should labor succeed in wringing substantial new concessions from industry, the day of return of the high rate of growth in productivity envisioned in the afore-cited comment would necessarily be postponed. Productivity, however one looks at it, is not being increased by unreasonable labor demands, particularly if they come at a time when labor costs must come down rather than up.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—Common stock indexes continued to fluctuate within a narrow trading range during the fortnight ended May 7, declining a little during the first half of the period, then recovering most of the loss during the second week, heartened a bit by lifting of the Berlin blockade and shelving of labor legislation at home. In keeping with the tradition that narrow markets are highly selective, 6 of our 46 sub-group indexes made new lows during the week ended May 7, and 5 made new highs. The copper group lost 7%, meat packing 4% and paper 3% during the week; while amusements and dairy products gained 4%. Bank stocks were stronger, and better grade preferred stocks weaker, than the market. High grade corporate and bank-eligible Government bonds advanced a little. Foreign government dollar bonds rose to the best average level since Feb. 7, 1948. The past fortnight witnessed considerable slackening in the rate at which commercial loans have been declining; but the total outstanding with weekly reporting member banks is now $1.4 billion, or 9% lower than at the start of the year and $91 million smaller than a year ago. Total loans, however, picked up a little in the fortnight ended Apr. 27. The Federal Reserve Board's action in reducing reserve requirements will have little nearby effect in checking the decline in commercial loans, which has been occasioned by lack of demand rather than by any effective shortage of loanable funds. But the reduction in requirements has created $1.2 billion of idle funds which will have to seek employment elsewhere — probably through stepped up purchases of bank-eligible Government bonds, prices for which have already begun to inch upward in consequence. It may be mere coincidence, but the way has been paved to facilitate a little Government deficit financing — just in case.

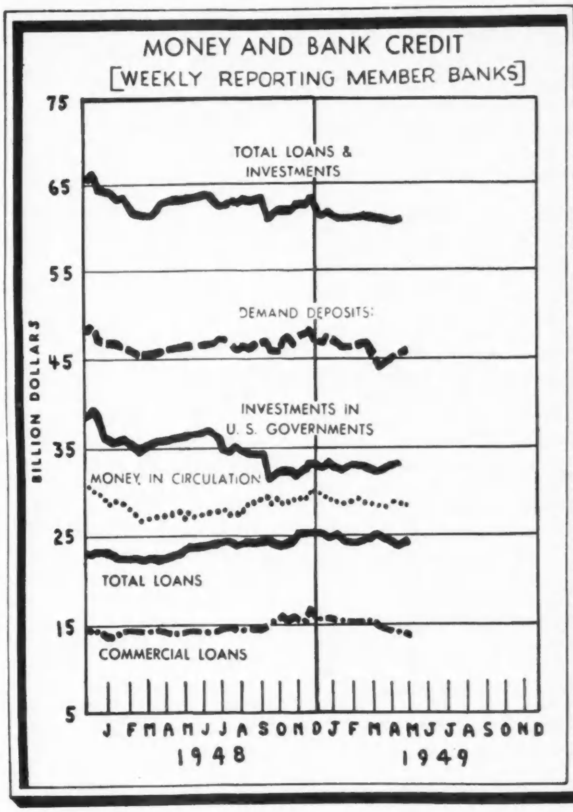
TRADE—March sales by wholesalers were 7% below the like month last year; yet month-end inventories were up 11% in dollar sales. Department store sales dropped to 10% below last year during the first post-Easter week this year; but were down only 4% for the second week ended Apr. 30. Merchants who have become accustomed to a long stretch of continually mounting sales volume are finding it difficult to adjust themselves emotionally to even the mild decline of only 3% that has occurred during the opening four months of 1949.

INDUSTRY — Spring pick-up in business appears to have started. Our index rose 0.7% during the closing fortnight of April. Unemployment turned downward a little in March, and furniture orders picked up noticeably. First quarter corporate earnings, though mixed in trend, still totaled more than a year earlier, with utilities making the best showing in history. Government measures to conserve our natural resources against needs of possible future wars threaten to cut oil industry profits.

COMMODITIES—Commodities easier, with special weakness in metals and wool; but wheat and sugar advance against the trend. Strength in cash wheat attributed to low stocks of the old crop still remaining in commercial storage. Secretary Brannan's revolutionary farm subsidy plan will probably not be approved at present session of Congress.

———o———

The current epidemic of gloomy forebodings is not fully supported by factual developments of the past fortnight, which suggest that the customary **Spring Pick-up** in business has at last begun to materialize, though mildly as yet, with improvements rather sporadic.



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Of course **Department Store Sales** suffered their usual post-Easter relapse, dropping during the week ended Apr. 23 to a level 10% below last year; but in the following week the decline narrowed to 4%. Sales for the year to date are off only 3%, compared with the like period last year, which is nothing to get panickly about.

* * *

One source of hope, for the nearer term outlook at least, is the recently released announcement by the Census Bureau that **Unemployment** in April was 151,000 smaller than a month earlier. Agricultural employment was up 427,000, a somewhat less than normal seasonal gain due to unfavorable weather conditions; yet the total was 372,000 above April of last year.

* * *

In the **Non-Farm** section of industry, **Employment** during the second week of April was 255,000 lower than a month earlier. The seeming paradox of a decline in both employment and unemployment arises from the circumstance that, since the March sampling, 406,000 had withdrawn from the labor market. This is an encouraging reversal of the previous trend of the past few months when an abnormally large proportion of people of working age entered, or re-entered, the labor

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Apr.	1.28	1.24	1.01	1.55
Cumulative from mid-1940	Apr.	380.8	379.5	367.0	13.8
FEDERAL GROSS DEBT—$b	May 4	251.6	251.4	252.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Apr. 27	46.2	45.8	46.7	26.1
Currency in Circulation	May 4	27.4	27.3	27.7	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Apr. 27	8.32	8.40	8.44	4.26
93 Other Centers—$b	Apr. 27	12.27	12.33	12.23	7.60
PERSONAL INCOMES—$b (cd3)	Feb.	219.2	221.8	208.4	102
Salaries and Wages	Feb.	139.4	140.7	130.8	66
Proprietors' Incomes	Feb.	49.6	51.4	49.6	23
Interest and Dividends	Feb.	18.7	18.6	16.6	10
Transfer Payments	Feb.	11.5	11.1	11.4	3
(INCOME FROM AGRICULTURE)	Feb.	24.4	26.1	24.1	10
CIVILIAN EMPLOYMENT—m (cb)	Apr.	57.8	57.6	58.3	51.8
Agricultural Employment (cb)	Apr.	7.8	7.4	7.4	8.8
Employees, Manufacturing (lb)	Mar.	15.5	15.7	16.2	13.8
Employees, Government (lb)	Mar.	5.8	5.8	5.5	4.6
UNEMPLOYMENT—m (cb)	Apr.	3.0	3.2	2.2	3.8
FACTORY EMPLOYMENT (1b4)	Mar.	151	153	160	147
Durable Goods	Mar.	175	178	188	175
Non-Durable Goods	Mar.	132	133	138	123
FACTORY PAYROLLS (1b4)	Feb.	358	363	354	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Mar.	38.9	39.4	40.4	40.3
Hourly Wage (cents)	Mar.	137.2	137.7	128.9	78.1
Weekly Wage ($)	Mar.	53.37	54.25	52.07	32.79
PRICES—Wholesale (1b2)	May 3	155.2	156.1	162.0	92.5
Retail (cdlb)	Feb.	189.2	191.5	189.0	116.2
COST OF LIVING (1b3)	Mar.	169.5	169.0	166.9	110.2
Food	Mar.	201.6	199.7	202.3	113.1
Clothing	Mar.	193.9	195.1	196.3	113.8
Rent	Mar.	120.1	119.9	116.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Mar.	10.47	8.95	10.73	4.72
Durable Goods	Mar.	3.06	2.47	2.95	1.14
Non-Durable Goods	Mar.	7.40	6.48	7.78	3.58
Dep't Store Sales (mrb)	Mar.	0.75	0.59	0.84	0.49
Retail Sales Credit, End Mo. (rb2)	Mar.	7.51	6.90	6.53	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Feb.	230	231	251	181
Durable Goods	Feb.	274	277	287	221
Non-Durable Goods	Feb.	204	203	230	157
Shipments (cd2)—Total	Feb.	332	326	331	187
Durable Goods	Feb.	384	371	360	227
Non-Durable Goods	Feb.	302	301	314	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Feb.	54.6	54.1	50.3	28.6
Manufacturers'	Feb.	32.0	32.1	28.8	16.4
Wholesalers'	Feb.	8.6	8.5	7.9	4.1
Retailers'	Feb.	14.0	13.5	13.6	8.1
Dept. Store Stocks (mrb)	Feb.	2.1	2.0	2.2	1.4
BUSINESS ACTIVITY—1—pc	Apr. 30	161.0	160.4	166.8	141.8
(M. W. S.)—I—np	Apr. 30	184.5	184.0	187.4	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 199)
force, thereby flooding the labor market and causing a sharp rise in unemployment.

* * *

Still more encouraging is the upturn of 0.7% in our index of **Business Activity** during the fortnight ended Apr. 30, even though the margin of decline below a year ago did widen to 1½%, owing to the much sharper post-strike rebound last year.

* * *

The Federal Reserve Board's index of **Industrial Production** for March was 2.7% lower than in February and 3.1% below March of last year. No small part of both declines was caused by the coal miners' walk-out, as indicated by dips in the minerals index of 10.1% below February and 6.3% below last year. It will be recalled that the F. R. B. index covers only about 40% of the nation's total physical volume of business activity. Our own index, designed for 100% coverage, shows that March was only 1.1% below February and 1½% under March of last year.

* * *

This publication's index of **Business Activity** receded in April to 183.9% of the 1935-9 average, from 184.8 in March, showing a dip of only 0.4% below April of last year. The first quarter averaged 187.7, off 1.7 point from the fourth quarter and 0.3% below the first quarter of last year. On a per capita basis, the index for April was down to 160.3% of the 1935-9 average, compared with 161.5 in March and 164.4 for April, last year. The first quarter averaged 164.3, against 166.3 for the fourth quarter and 167.5 for the first quarter of 1948.

* * *

A tabulation by the National City Bank of **Earnings** by the first 500 leading industrial corporations to report for the first quarter shows unusual diversity in trends. About half showed increases, and half decreases, as compared with the like period last year. Total earnings were up 6% from last year's first quarter, though off 18% from the fourth quarter. Aggregate dollar sales of all manufacturing companies reporting sales were up 9%, though off, partly seasonally, about 7% from the peak fourth quarter of 1948. Industries reporting the largest increases over last year in aggregate net profits were steel and iron, 66%, and autos and trucks, 42%. Eliminating these two still prospering industries, earnings of the remaining 452 companies were 8% below last year, compared with the 6% gain for the entire 500. The largest declines below last year were 52%, reported by textiles and apparel, and 44% suffered by building, heating and plumbing equipment.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Mar.	184	189	191	174
Mining	Mar.	133	148	143	133
Durable Goods Mfr.	Mar.	223	226	229	220
Non-Durable Goods Mfr.	Mar.	168	173	177	151
CARLOADINGS—t—Total	Apr. 30	785	769	891	833
Manufactures & Miscellaneous	Apr. 30	350	342	384	379
Mdse. L. C. L.	Apr. 30	84	93	*111	156
Grain	Apr. 30	45	44	39	43
ELEC. POWER Output (Kw.H.)m	Apr. 30	5,304	5,326	5,042	3,267
SOFT COAL, Prod. (st) m	Apr. 30	11.5	11.4	14.0	10.8
Cumulative from Jan. 1	Apr. 30	173	161	178	446
Stocks, End Mo.	Mar.	60.5	68.8	43.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Apr. 30	4.9	4.9	5.4	4.1
Gasoline Stocks	Apr. 30	125	124	112	86
Fuel Oil Stocks	Apr. 30	60	60	51	94
Heating Oil Stocks	Apr. 30	50	50	35	55
LUMBER, Prod. (bd. ft.) m	Apr. 30	686	691	618	632
Stocks, End Mo. (bd. ft.) b	Feb.	7.2	7.4	5.6	12.6
STEEL INGOT PROD. (st.) m	Mar.	8.30	7.49	7.61	6.96
Cumulative from Jan. 1	Mar.	241.1	15.7	22.0	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 5	129	146	113	94
Cumulative from Jan. 1	May 5	2,591	2,462	2,196	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Apr. 30	153	157	201	165
Pneumatic Casings Production—m	Feb.	5.9	5.9	6.4	4.0
Footwear Production Pairs)m	Feb.	37.1	36.9	40.3	34.8
Whiskey, Do. Sales (tax gals.)m	Feb.	4.2	4.0	4.2	8.1
Cigarettes, Domestic Sales—b	Mar.	31.2	25.0	29.3	17.1
Do., Cigars—m	Mar.	457	410	470	543

PRESENT POSITION AND OUTLOOK

* * *

Electric Utilities companies had estimated net profits of $202 million in the first quarter — 8% above the like period last year, and larger than for any previous quarter in history. Output of electric energy during March was the largest for any March on record and 5.3% above last year. Contributing to these achievements were rate increases, improved water supply for the hydro-electrics, increased efficiency of new generating equipment, lower fuel prices and expanding demand.

* * *

Estimated net income of Class I **Railroads** in March was 16% above the like month last year, compared with a 25% decline for the first quarter.

* * *

New orders booked by **Furniture** makers in March were only 10% below last year, compared with a three-months' drop of 28%. Shipments were 21% under last year, about the same decline shown for the first quarter. Backlog of unfilled orders at the end of March was 59% below last year and equivalent to only one month's production.

* * *

Manufacturers' **Inventories** declined in March, the first reduction since the war; but the decline was due solely to lower prices, with unit quantity virtually unchanged.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

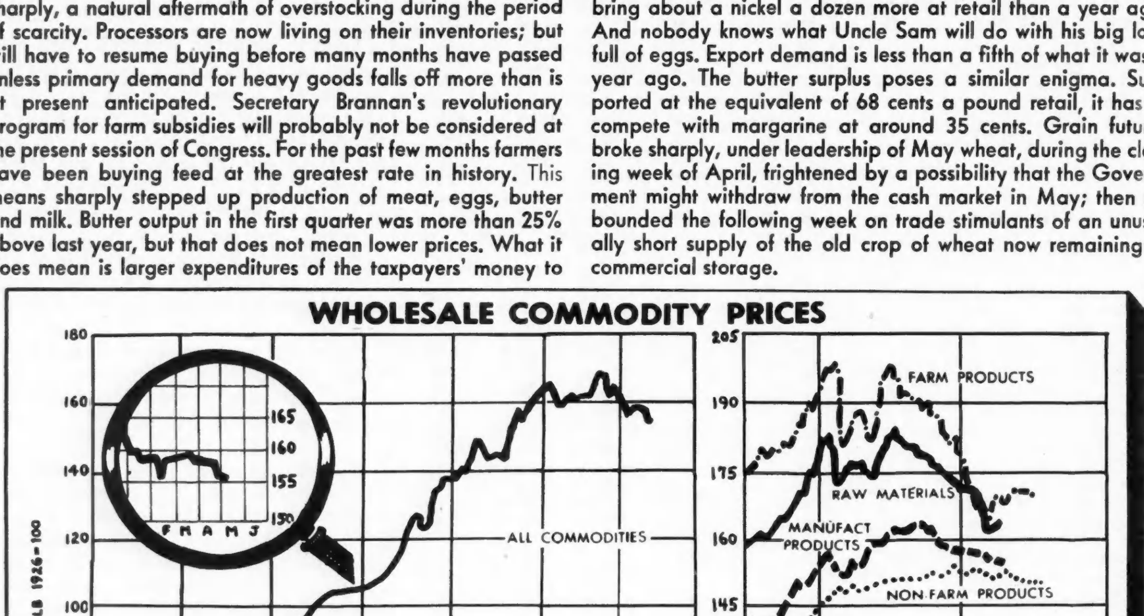
No. of Issues (1925 Close—100)	1949 Indexes High	Low	April 30	May 7
320 COMBINED AVERAGE	127.6	115.5	118.3	119.2
4 Agricultural Implements	200.0	167.5	167.5b	172.9
10 Aircraft (1927 Cl.—100)	175.3	145.1	158.0	156.9
6 Air Lines (1934 Cl.—100)	435.6	366.1	397.6	412.2
6 Amusement	92.0	75.7	87.9	92.0A
12 Automobile Accessories	188.9	164.1	167.2	167.6
12 Automobiles	29.7	23.9	23.9e	24.3
3 Baking (1926 Cl.—100)	19.5	18.4	18.7	18.8
3 Business Machines	237.4	210.0	210.0e	214.9
2 Bus Lines (1926 Cl.—100)	130.1	118.3	129.1	127.6
5 Chemicals	235.2	220.8	222.6	228.4
3 Coal Mining	19.2	13.1	13.2	13.1d
4 Communication	39.4	35.0	36.5	36.5
13 Construction	58.5	51.9	51.9b	52.2
7 Containers	284.1	263.5	266.9	270.1
9 Copper & Brass	95.8	73.6	79.0	73.6e
2 Dairy Products	59.1	53.3	56.8	59.1A
5 Department Stores	54.9	49.2	49.2d	50.7
6 Drugs & Toilet Articles	154.3	141.6	148.8	151.2
2 Finance Companies	272.2	246.1	269.2	272.2C
7 Food Brands	154.4	146.0	152.8	154.0
2 Food Stores	73.0	58.5	71.1	73.0B
3 Furniture	70.7	59.0	59.0e	60.2
3 Gold Mining	733.9	566.3	680.7	689.2

(Nov. 14, 1936, Cl.—100)	High	Low	April 30	May 7
100 HIGH PRICED STOCKS	80.68	74.54	75.67	76.26
100 LOW PRICED STOCKS	146.36	130.57	134.41	135.39
6 Investment Trusts	60.3	53.9	57.8	58.9
3 Liquor (1927 Cl.—100)	688.2	624.6	624.6b	634.7
10 Machinery	136.9	122.9	127.7	129.0
3 Mail Order	104.9	91.8	97.3	98.9
3 Meat Packing	79.9	68.6	71.9	68.6d
12 Metals, Miscellaneous	158.1	136.4	137.0	136.4e
4 Paper	37.3	30.7	31.9	30.7d
29 Petroleum	245.7	210.9	233.9	236.1
21 Public Utilities	115.9	102.4	113.4	115.8
6 Radio (1927 Cl.—100)	26.7	16.7	16.7b	16.9
9 Railroad Equipment	50.0	42.1	43.2	43.3
24 Railroads	23.4	19.5	20.2	20.3
3 Realty	23.9	22.1	23.1	23.9
3 Shipbuilding	144.4	124.9	133.5	134.9
3 Soft Drinks	367.4	298.2	346.5	353.7
14 Steel & Iron	106.2	91.2	93.6	91.2b
3 Sugar	48.5	42.0	42.5	42.7
2 Sulphur	272.0	233.8	266.4	272.0A
5 Textiles	132.5	103.3	104.6	104.7
3 Tires & Rubber	31.6	28.9	29.8	30.0
6 Tobacco	73.5	67.1	72.0	72.4
2 Variety Stores	324.1	308.3	319.3	322.5
17 Unclassified (1948 Cl.—100)	105.3	94.0	101.1	102.7

New HIGH since: A—1948; B—1947; C—1946. New LOW since: b—1947; d—1945; e—1944.

Trend of Commodities

Commodity futures declined a little during the fortnight ended May 7, with notable weakness in wool. Sugar and wheat advanced against the trend. Non-ferrous metals dropped sharply, a natural aftermath of overstocking during the period of scarcity. Processors are now living on their inventories; but will have to resume buying before many months have passed unless primary demand for heavy goods falls off more than is at present anticipated. Secretary Brannan's revolutionary program for farm subsidies will probably not be considered at the present session of Congress. For the past few months farmers have been buying feed at the greatest rate in history. This means sharply stepped up production of meat, eggs, butter and milk. Butter output in the first quarter was more than 25% above last year, but that does not mean lower prices. What it does mean is larger expenditures of the taxpayers' money to support prices and prevent a drop in living costs. In fact the Government is making such heavy purchases of dried eggs that prices may go up this winter, instead of down. Even now eggs bring about a nickel a dozen more at retail than a year ago. And nobody knows what Uncle Sam will do with his big lapfull of eggs. Export demand is less than a fifth of what it was a year ago. The butter surplus poses a similar enigma. Supported at the equivalent of 68 cents a pound retail, it has to compete with margarine at around 35 cents. Grain futures broke sharply, under leadership of May wheat, during the closing week of April, frightened by a possibility that the Government might withdraw from the cash market in May; then rebounded the following week on trade stimulants of an unusually short supply of the old crop of wheat now remaining in commercial storage.

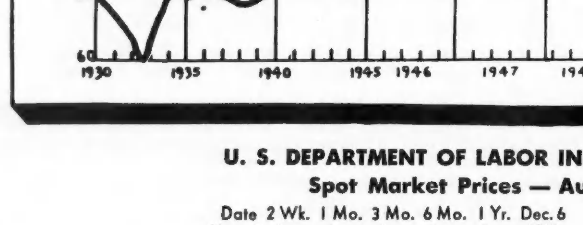


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

	Date May 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	242.9	244.7	259.3	271.4	306.6	321.3	156.9
11 Imported Commodities	248.4	250.5	251.2	261.1	279.1	274.2	157.3
17 Domestic Commodities	239.4	241.0	248.1	278.3	325.9	356.0	156.6

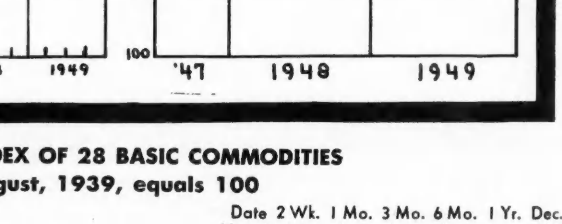
	Date May 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	287.3	285.7	291.0	279.3	320.9	378.3	163.9
12 Foodstuffs	278.8	279.7	283.8	282.0	350.3	403.2	169.2
16 Raw Industrials	230.5	232.0	240.2	273.5	278.7	274.6	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	144.3	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	123.87	139.83	117.14	93.90	55.45	46.59	45.03	52.03

What's Ahead for Merchandising Shares

(*Continued from page* 186)

volume to some extent. Besides this, the general downtrend in prices of finished goods seems certain to cut into overall dollar sales.

This far in 1949, mail order sales—partly for seasonal reasons—have declined faster than those of other retailers, for the first quarter dropping about 11.6%. The shrinking demand for hard goods has been very noticeable, and as this class of merchandise is an important factor in overall volume, the percentage decline in mail order volume may continue to be somewhat more marked than with department store trade.

For this reason the earnings of the leading mail order concerns will probably be lower this year than last. Both Sears Roebuck and Montgomery conduct such a tremendous business as to necessitate carrying large inventories that in a period of declining prices may incur losses. But in both instances, establishment of sizable reserves against this contingency will be a mitigating factor. Their huge purchasing power gives them an advantage in holding the cost of goods down, and they are traditionally alert in keeping prices to customers at the lowest permissible level.

Though earnings of these two mail order houses may contract somewhat in the current year, they could do so with little threat to dividend stability. Last year's earnings of $10.28 per share by Montgomery Ward compared with dividends of only $3, while Sears Roebuck distributed $2.50 out of net of $5.80 per share. Aldens, Inc., the third largest mail order concern, also paid conservative dividends of $1.50 compared with earnings of $3.68 per share. In all these cases the rather wide spread between earnings and dividends is an encouraging factor.

The specialty stores enjoy a rather more favorable position than other retailers for several reasons. Although because of emphasis in soft goods, they did not benefit from the increasing availability of hard lines that swelled volume of other stores last year, their sales gains were comparable. Now that the general decline in retail trade is due importantly to lower demand for durables, specialty store sales have held up quite well in the 1949 first quarter. Profit margins of leading concerns in this group widened last year because necessary mark-downs of style merchandise in the previous year no longer were essential in 1948. The reduction in textile prices of late, together with the production of better quality apparel, should aid in sustaining volume of the well established specialty stores through the first half of the current year at least.

Sales of variety chains rose 6.6% in 1948, generally lifting profit moderately. Relatively stable earnings in both good and poor times are characteristic of this field. An increasing stream of low-priced products brightens volume potentials for well established variety chains in the current year, while numerous expansion programs now completed should also help to sustain sales. Operating margins, however, are normally narrow and rising costs of freight, labor and other items are apt to pinch somewhat. The main cloud on the horizon at present is the prospect that Congress may increase minimum wages substantially from the current 40 cents an hour rate. Such a large proportion of variety store employees are paid relatively low wages that much of an advance in the minimum rate would cut margins rather severely. On the other hand, most goods merchandised in these stores are so moderately priced that if all the stores had to pay higher wages, prices could be upped within a short time without seriously arousing customer resistance. On the whole, though, a slight downtrend in variety store earnings during 1949 should occasion no surprise.

Shares of retail distributors are selling at a level that appears to discount amply a prospective downtrend in sales and earnings. Examination of our table shows the fairly low price-earnings ratios generally prevailing. Some of the shares provide generous yields that even if reduced would normally be satisfactory when economic conditions become more stable. For the long pull, both Montgomery Ward and Sears Roebuck carry considerable appeal, as do such issues as May Department Stores, Allied Stores and J. C. Penney, which should do well marketwise under prospective conditions.

IMPERIAL OIL LIMITED

Notice to Shareholders and Holders of Share Warrants

NOTICE is hereby given that a dividend of 25 cents per share in Canadian currency has been declared and that the same will be payable on or after the 1st day of June, 1949.

The payment to registered shareholders of record at the close of business on the 16th day of May, 1949, will be made by cheque mailed from the offices of the Company on the 31st day of May, 1949.

In respect of the shares specified in any bearer share warrant of the Company such dividend will be paid upon presentation and delivery of coupons No. 72 at any branch of The Royal Bank of Canada in Canada.

The transfer books will be closed from the 17th day of May, 1949 to the 31st day of May, 1949.

Non-residents of Canada may convert this Canadian dollar dividend into United States currency or such other foreign currencies as are permitted by the Canadian Foreign Exchange Control Board at the official Canadian Foreign Exchange Control Board rates prevailing on the date of presentation. Such conversion can be effected through a Canadian branch of any Canadian Chartered Bank or at the agency of The Royal Bank of Canada, 68 William Street, New York City, who will furnish forms and information regarding Income Tax deductions and credits.

By order of the Board,

COLIN D. CRICHTON,
General Secretary

56 Church Street,
Toronto 1, Ontario,
May 5, 1949.

Atlas Corporation

Dividend on Common Stock

NOTICE IS HEREBY GIVEN that a regular quarterly dividend of 40¢ per share has been declared on the Common Stock of Atlas Corporation, payable June 20, 1949, to holders of such stock of record at the close of business May 27, 1949.

WALTER A. PETERSON, *Treasurer*
May 12, 1949.

The same applies in greater degree to leading variety chains, the stocks of which have done better than the general market as shown

THE COLUMBIA GAS SYSTEM, INC.

EARNING STATEMENTS FOR THE TWELVE MONTHS ENDED MARCH 31, 1949

The Columbia Gas System, Inc. has made generally available to its security holders corporate and consolidated earning statements for the period April 1, 1948 to March 31, 1949, such period beginning after the effective date of the Corporation's Registration Statement for $45,000,000 principal amount of 3¼% Debentures Due 1973, filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended. Upon request, addressed to the Corporation at 120 East 41st Street, New York 17, N. Y., copies of such earning statements will be mailed to the Corporation's security holders and to other interested parties. Such earning statements are made generally available to security holders in accordance with the provisions of Section 11(a) of the Securities Act of 1933, as amended.

THE COLUMBIA GAS SYSTEM, INC.
by E. D. BIVENS,
Treasurer

May 14, 1949.

Allegheny Ludlum Steel Corporation
Pittsburgh, Penna.

At a meeting of the Board of Directors of the Allegheny Ludlum Steel Corporation held today, April 29, 1949, a dividend of one dollar twelve and one-half cents ($1.12½) per share was declared on the $4.50 Cumulative Preferred Stock of the Corporation, payable June 15, 1949, to Preferred stockholders of record at the close of business on June 1, 1949.

S. A. McCASKEY, JR.
Secretary

The New Market Trend
is now evident. Follow it in the revised May issue of

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15 William St., New York 5
Tel.: HA 2-4848

in the accompanying stock trend chart. Sales gains being reported for the first four months of the year range from 2½% to about 10%, with the average increase nearly 6%, distinctly running counter to the department store trend and the result of their merchandising of fast moving, low priced goods, and of additional outlets. In the circumstances, sales for the full year 1949 will probably be as high or nearly as high as last year, despite the general business decline, though narrower profit margins must be reckoned with. According to current estimates, any earnings decline for the group as a whole should be relatively narrow, probably not exceeding 10% or so.

By way of contrast, department store executives are becoming reconciled to an earnings drop that may average as high as 20% since in addition to a generally more passive consumer buying attitude they are particularly affected by declining demand of consumer durables, such as household appliances which are not carried by variety chains. The downtrend in earnings conceivably can be minimized by cutting operating costs but there is not too much leeway in this respect since unit sales are still heavy and mounting competition does hardly permit much curtailment of services to customers. Doubtless the trend is toward effecting economies, however, which ultimately should permit stabilization of earnings at lower levels but still considerably above prewar.

Where Will Europe Market Its Expanded Production?

(*Continued from page* 181)

And doubtless any decline in our purchases abroad, as for instance under the impact of broadening recession, would have serious repercussions on world recovery. Hence official emphasis on the need for maximum imports not only to sustain world trade but our own exports as well. Even now fears are voiced about the possibility of a worldwide recession, should a progressive "shake-out" in the USA be accompanied by a general drop in world demand. While such a possibility cannot be absolutely ruled out, it is hardly probable.

At this juncture, a bigger American market for European goods is one of ECA's leading projects, in implementation of its overall effort directed at European economic recovery. Other aspects of this basic plan, as we have shown, are well in hand. Production is ahead of schedule in most countries. There has been significant progress toward internal stability. The difficult task of adjusting currencies is being tackled. But one overriding problem remains. Even if all these steps work out as expected, Western Europe still has to cope with a serious dollar deficit once ECA aid ends. In anticipation of this, the move is toward facilitating access to the American market, by reducing import red tape and if necessary by lowering tariffs, lest Europe remain dependent on direct American financial assistance for many more years.

This need for wider American markets that ultimately may lead to a mounting inflow of European goods to this country, could be at least minimized in a way in which there has been no progress at all—by closer economic union of Western Europe. Unfortunately, so far, there is an almost total absence of integration of economic plans of the various countries.

Investment Audit of U.S. Steel

(*Continued from page* 000)

cement in this country and an important contributor to profits.

Although the extensive plant improvement program is well balanced and promises to reach virtual completion this year, the financial position has been kept exceptionally strong. Long term debt has been reduced to about $71.5 million—extraordinarly low in relation to property appraisal in excess of $2 billion—while Government securities to the amount of almost $369 million have been acquired, of which $155 million have been set aside for property additions and replacements. Cash position increased slightly during 1948 to $225 million at the year-end.

In connection with the stock split, directors authorized restoration of stated value of the common stock of $100 a share as of December 31, 1948. This action nullified a reduction from $100 to $75 a share adopted in 1935 when $270 million was set aside as depreciation reserves to cover economic obsolescence of properties. The amount had been reserved

prior to 1927 primarily from earned surplus. Inasmuch as no part of the reserves had been utilized as a depreciation cost in income statements or had been allowed by the Treasury as a federal income tax deduction, the board decided to restore the required amount to permit raising stated value of the common stock in recognition of inflationary effects of the wartime economy on property values. Coincident with the split, the company raised stated value of common stock to $870,325,000 from $652,744,000. Although working capital dropped $79 million in 1948, equity per common share rose to $183.64 a share from $147.37 at the end of 1947. On basis of the split stock, equity currently approximates $61 a share.

Strategic Situation

From the standpoint of intrinsic values and plant efficiency, U. S. Steel appears strategically situated, as may be observed from previous comments. As for effects of a prospective general slackening in industrial operations, the investors must judge the extent to which the market has discounted the likelihood of narrower margins and lower earnings. In this connection, it may be well to consider results experienced thus far this year and forecasts of probable operations later in the year.

With benefit of favorable weather conditions as well as a stable flow of raw materials, the corporation experienced its best quarter in almost two decades in the first three months of this year. Production averaged 101.5 per cent of rated capacity, slightly better than principal competitors, since the industry as a whole averaged slightly better than 100 per cent. As output has tapered moderately in recent weeks, "Big Steel" has continued to hold its production schedule at slightly above the average for the remainder of the industry. This record testifies to the benefits of the modernization and improvement program designed to increase worker efficiency.

Net income for the first quarter also reflected wider profit margins resulting from continuous high rate of output. Earnings represented 7.5 per cent of sales, compared with 5 per cent for 1948 and 6 per cent in 1947. Notwith standing this improvement, the ratio of net income to sales still is well below experience of 1940 (9.5 per cent) and 1937 (9.2 per cent), when activity was relatively high. Results for the first quarter came to $5.01 a share compared with $2.48 in the corresponding period of 1948—equal on new shares to $1.67 a share against 83 cents.

Although management notes a "leveling in demand for steel," accompanied by disappearance of premium prices and conversion deals, price adjustments promise to be moderate and gradual. Removal of export controls and domestic allocations promises to help sustain consumption, while the fact that prices have been advanced relatively less than nonferrous metals and other commodities suggests that concessions may be smaller—especially on structural steel and other products still in strong demand.

Forthcoming negotiations over pensions and other benefits sought by the Steel Workers Union may have a bearing on price policies later in the year. It is too early to attempt to anticipate what settlement may be reached and how the terms may affect U. S. Steel earnings.

In appraising prospects for this traditional market leader, it is well to take into consideration that the corporation merits higher rating than do marginal companies which lose profitable business in times of keen competition. The company's size enables it to pick and choose customers to a greater extent than its competitors are able to do. Purchases of outside raw materials usually can be obtained at prices more satisfactory than the general average. In brief, there are advantages that contribute to intangible values.

Steel production almost certainly will decline to some extent over coming months. This fact has been taken into account by the recent price weakness in the heavy industry group. Whether operations drop to a level as low as 70, 75 or 80 per cent of theoretical capacity is anybody's guess. Much may depend on progress in impending negotiations for a new contract between soft coal producers and the United Mine Workers Union. In fact, there is considerable doubt as to whether the downtrend in operating activity may be reversed this summer or next winter.

CROWN CORK & SEAL COMPANY, INC.

PREFERRED DIVIDEND

The Board of Directors has this day declared the Regular Quarterly Dividend of fifty cents ($.50) per share on the $2.00 Cumulative Preferred Stock of Crown Cork & Seal Company, Inc., payable June 15, 1949, to the stockholders of record at the close of business May 24, 1949.

The transfer books will not be closed.

WALTER L. McMANUS, Secretary.

April 28, 1949.

CONTINENTAL CAN COMPANY, Inc.

A regular quarterly dividend of ninety-three and three-quarter cents ($.93¾) per share on the $3.75 cumulative preferred stock of this Company has been declared payable July 1, 1949, to stockholders of record at the close of business June 15, 1949. Books will not close.

SHERLOCK McKEWEN, *Treasurer.*

CONTINENTAL CAN COMPANY, Inc.

The second quarter interim dividend of twenty-five cents (25¢) per share on the common stock of this Company has been declared payable June 15, 1949, to stockholders of record at the close of business May 25, 1949. Books will not close.

SHERLOCK McKEWEN, *Treasurer.*

NATIONAL CONTAINER CORPORATION

On May 9, 1949, a regular quarterly dividend of 10¢ per share was declared on the Common Stock of the National Container Corporation, payable June 10, 1949 to all stockholders of record May 20, 1949.

HARRY GINSBERG, *Treasurer*

PLYMOUTH DODGE **Chrysler Corporation** DE SOTO CHRYSLER

YOU GET THE GOOD THINGS FIRST FROM CHRYSLER CORPORATION

DIVIDEND ON COMMON STOCK

The Directors of Chrysler Corporation have declared a dividend of one dollar and twenty-five cents ($1.25) per share on the outstanding common stock, payable June 14, 1949, to stockholders of record at the close of business May 20, 1949.

B. E. HUTCHINSON

Chairman, Finance Committee

FIRTH CARPET COMPANY

New York, N. Y.

DIVIDEND NOTICE

The Board of Directors has this day declared a regular quarterly dividend of $1.25 per share on the outstanding 5% Cumulative Preferred Stock, payable June 1, 1949 to stockholders of record May 16, 1949. The regular quarterly dividend of thirty-five cents ($.35) per share has been declared on the Common Stock, payable June 1, 1949 to stockholders of record May 16, 1949. The transfer books will not close.

Graham Hunter, Treasurer.

May 4, 1949.

There is some assurance in the fact, however, that experience suggests that the market usually bottoms out prior to the low point in steel production. Hence, if the turn for the better is no further than six to eight months away, perhaps the low point for steel shares may not be so far distant as pessimists appear to believe.

What About Your Taxes?

(*Continued from page* 175)

the comparable latest period. Pre-tax net shrank severely because of sharply narrowing profit margin, reducing tax liability from $3 million to $900,000. Or consider the case of Procter & Gamble where pretax net shrank from $28.3 million to $9.6 million, and tax liability from $10.7 million to a bare $2 million. These may not be typical examples since special factors intensified the earnings and tax drop. But even in industries still relatively prosperous, the trend is the same.

Thus Shell Union Oil with only a minor drop in sales reported a sizable decline in pretax earnings, from $42.8 million to $30.2 million, reducing tax liability from $13 million to $8 million. Atlantic Refining, reporting a $13 million sales increase, shows a $2 million drop in pretax net and a $1.7 million decline in tax liability. U. S. Rubber reported a relatively moderate decline in sales, resulting in a drop in pretax net of $2 million and a lowering of tax liability from $3.4 million to $2.6 million.

In glancing over recent corporate reports, this trend is found multiplied many times though there are of course exceptions, limited mainly to companies in industries where recessive influences or readjustment factors have not yet been operative. The broad trend, however, has been and is toward declining sales and narrowing margins, with a resultant lowering of pretax profits and tax liabilities, and this trend in many lines may deepen before an improvement sets in. Admittedly we must expect, due to lower prices alone if not also because of a falling off in physical volume, a general downtrend in sales in the great majority of lines, and even where profit margins hold up (they seldom do nowadays), this makes for lower taxable earnings and a reduced tax take from corporations. It shows the Government's immense stake in maintenance of a healthy and prosperous economy. Revenue figures underlying current budgetary planning are dependent on sustained high level economic activity. With the latter declining, at least for the time being, lower revenues must be anticipated; and if budget deficits are to be avoided, this requires careful reconsideration of tax policies and spending plans.

Only three courses are open to remedy the situation. One would be substantial tax increases, as proposed in the President's program. But with the economy already in a recession, it is correctly feared that heavier taxes at this time could easily accelerate a minor business decline into a major recession. Heavier taxes imposed on individuals will cut into their disposable income, reducing market potentials for business and industry. And higher corporate taxes, which can no longer be passed on to the consumer in the form of higher prices, would seriously stifle business initiative and halt business expansion. Higher tax rates then might easily mean less revenue than more.

Another course, and the most realistic one, would be drastic budget cuts leading to greater Government economy, together with elimination or postponement of new spending schemes as envisaged in the President's "Fair Deal Program," and with effective unification and coordination of the Armed Forces. With a genuine willingness to retrench, it is estimated that between $3 and $4 billion could be saved in this manner without reducing the efficiency of Government and its functions.

There is a third course — large scale deficit financing, as undesirable as the second course would be desirable. It would be basically inflationary and hardly apt to strengthen public confidence in Government credit. Moreover, once resumed, it would become increasingly difficult to balance the budget in the future. Our national debt would again rise, and with it the cost of servicing that debt.

In short, the budget outlook is such that what is called for is not only relentless economizing on the part of the Government to ward off deficits but enlightened official policies towards business in order to foster and maintain greatest possible prosperity. Without it, the budget outlook looks glum indeed since the Government is virtually certain to spend considerably more than it collects. Every individual might well ponder this problem, for in the end it will come down to the question: What about your taxes? In the end, that is, he will have to pay, one way or another.

Has Readjustment Started in the Paper Companies?

(*Continued from page* 184)

establishing a yield of only 4.3% and a price-earnings ratio of 12.8.

Few manufacturers of paper containers have as yet reported results for the first quarter. Price weakness in this field, however, developed around midyear of 1948, cutting into margins of several concerns rather severely. Sales of National Container Corporation, for example, were reduced about 11% in 1948, while earnings dropped 43% to $2.28 per share. Since further price reductions seem likely in near months, sales and earnings may not compare favorably with those of recent periods. Maintenance of the reduced 20 cents per share quarterly dividend is possible but not too certain.

Looking ahead to the balance of 1949, paper manufacturers generally hope that in the last half year a resurgence of demand will substantially offset the over-all lag evident in the first quarter. Despite curtailed production of some paper lines, inventories at the mill level have mounted, but only to a moderate extent. Wholesalers' inventories in relation to sales, on the other hand, are smaller by prewar comparisons. Thus the situation appears sound at both levels. Expectations of improvement appear rational because paper consumption remains substantial, though incoming orders of manufacturers thus far in the second quarter do not fully reflect the consumption rate. As yet there is little to indicate that demand for the full year will recede by perhaps more than 15%.

Another encouraging factor is that while production of paper was spotty in the first quarter, output of newsprint was about 13% above the same period in 1948 and coarse paper production showed a similar rise of about 7%, both on

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J. E. REEVES, *Treasurer*

May 16, 1949

a tonnage basis. Pressure to unload inventories of certain kinds of printing and writing papers now in ample supply, though, has reduced their prices substantially since the beginning of the year, to judge from bids submitted to the Government Printing Office. Quotations for machine finish book paper in rolls, for example, were $174.80 compared with $199.60 late in 1948, while prices for other grades were also reduced. Some of these stocks of course may represent distress goods, but this in no way eases existing price problems.

In conclusion, there is no doubt that the sellers' market in the paper industry has definitely ended and that the readjustment period started several months ago. That paper manufacturers will be able to operate at capacity in the current year appears very unlikely. Volume and earnings in the second quarter will probably develop a downtrend, the extent of which will hinge on demand in the second half year, and this is a factor as yet not clear.

Securities Disturbing Investors

(*Continued from page* 193)

ported in the March quarter covered the dividend, the margin was not wide. Uncertainty over stability of the 35 cents payments is created by the terms of a loan agreement entered into last year that restricts dividends to 70% of net earnings after January 1, 1949. If earnings decline below the showing in the March quarter, accordingly, it is possible that less than 35 cents per share can be distributed. This uncertainty undoubtedly has affected the price of CBS shares adversely, perhaps too much so, but the factor cannot be overlooked. For this reason, the shares do not appear to carry much appeal at the present time, though they may not be without long term appreciation potentials if held until current problems are satisfactorily overcome.

Sunray Oil Corporation

Of late we have received a good many inquiries concerning this well integrated oil company, probably due to the rather laggard action of the stock, recently selling at 11 compared with last year's high of 15⅜. Additionally, first quarter earnings of 45 cents per share were somewhat lower than the 61 cents reported in the same 1948 interval.

Analysis of Sunray Oil's status in the petroleum industry, its operating results and prospects, reveals little that should disturb shareholders, aside from the probability that, in common with most other oil companies, 1949 earnings may be moderately down from the record level of last year. The 25 cents quarterly dividend should be readily maintained even if net earnings slip down somewhat in the current year. As for the present price of 11 for the shares, it should be realized that oil equities all along the line have declined from their 1948 highs and that in every year for the past decade, Sunray shares at some time have established lower quotations than those now prevailing, often by a wide margin.

This concern is exceptionally well managed, as its growth from small size ten years ago to one of the leading oil operators at present clearly shows. Acquisition on favorable terms of Superior Oil Corporation and Darby Petroleum Corporation during the war years followed by a merger with Transwestern Oil Company in 1946, substantially expanded and rounded out the company's operations, Aggressive policies to build up proven oil reserves have resulted in the acquisition of domestic oil leases covering more than 620,000 acres, of which 87,541 acres are now productive. 3,140 active wells produced about 12.3 million barrels of crude oil last year. Rather recently, Sunray together with two other concerns formed a Canadian company that acquired about 1.4 million acres of oil leases from the Dominion Government; these the management views with decided optimism. Besides these holdings, Sunray now owns a substantial interest in a promising Middle East oil enterprise.

Refinery capacity is considered adequate for Sunray's crude oil production, and is highly modernized. The company specializes in high octane motor fuel, a favorable circumstance in that it permits higher refining profit margins than otherwise could be obtained. Refined output is sold mostly to wholesalers, relieving Sunray of the expense and effort of retail distribution.

As the company is active in developing new sources of crude oil, having brought in 190 productive wells last year alone, and its 1949 outlays for exploration in both domestic and Canadian fields will be substantial, Sunray raised about $18.8 million dollars last year through the sale of convertible preferred stock. Proceeds of this helped to lift working capital to record proportions of $24.8 million at the end of 1948, an exceptionally high figure for a concern of this size. Evidence of efficient cost control is furnished by well maintained pretax profit margins that for a number of years past have equalled or surpassed those of some of the company's largest competitors.

Altogether, the equities of Sunray Oil appear sound in most respects and seem reasonably priced under current conditions. Over the longer term, their appreciation potentials may prove considerably. Some speculative appeal is added by the leverage created by funded debt of $32.4 million and about 1.8 million shares of preferred stocks.

America's Defeat in the Orient

(*Continued from page* 165)

immediately do as far as China is concerned. More money and more arms would not save the situation until some group in that country proves its ability to help itself. But the least we can do is not to help the communists by trying to do business with them.

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